



Legislative Audit Division

State of Montana

Report to the Legislature

December 2006

Financial Audit

For the Fiscal Year Ended June 30, 2006

State of Montana

Basic financial statements and Schedule of Expenditures of Federal Awards

The report contains the basic financial statements of the state of Montana for fiscal year 2005-06, which were prepared by the Department of Administration's Administrative Financial Services Division and the Schedule of Expenditures of Federal Awards for the fiscal year ending June 30, 2006, prepared by the Governor's Budget and Program Planning Office.

This report contains our unqualified Independent Auditor's Report on the basic financial statements, which includes our opinion on the Schedule of Expenditures of Federal Awards, and our report on compliance and internal control.

This report does not contain any recommendations to the Department of Administration or the Governor's Office.

**Direct comments/inquiries to:
Legislative Audit Division
Room 160, State Capitol
PO Box 201705
Helena MT 59620-1705**

06-01

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FINANCIAL AUDITS

Financial audits are conducted by the Legislative Audit Division to determine if the financial statements included in this report are presented fairly and the agency has complied with laws and regulations having a direct and material effect on the financial statements. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States Government Accountability Office. Financial audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

Government Auditing Standards, the Single Audit Act Amendments of 1996 and OMB Circular A-133 require the auditor to issue certain financial, internal control, and compliance reports. This individual agency audit report is not intended to comply with these requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 2007, will be issued by March 31, 2008. The Single Audit Report for the two fiscal years ended June 30, 2005, was issued on March 6, 2006. Copies of the Single Audit Report can be obtained by contacting:

Single Audit Coordinator
Office of Budget and Program Planning
State Capitol
Helena MT 59620
Phone (406) 444-3616

Legislative Audit Division
Room 160, State Capitol
PO Box 201705
Helena MT 59620-1705

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LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
Tori Hunthausen,
Chief Deputy Legislative Auditor



Deputy Legislative Auditors:
James Gillett
Jim Pellegrini

December 2006

The Legislative Audit Committee
of the Montana State Legislature:

This financial audit report contains our independent auditor's report on the basic financial statements and the Schedule of Expenditures of Federal Awards of the state of Montana for the fiscal year ended June 30, 2006. The basic financial statements were prepared by the Administrative Financial Services Division of the Department of Administration. The Schedule of Expenditures of Federal Awards was prepared by the Governor's Budget and Program Planning Office.

We performed the audit to express an opinion on the state's basic financial statements and the related opinion on the Schedule of Expenditures of Federal Awards. The Independent Auditor's Report is on page B-1 followed by the basic financial statements on page C-1, which includes Management's Discussion and Analysis, the financial statements and accompanying notes, and the Budgetary Comparison Schedule and accompanying notes. The Schedule of Expenditures of Federal Awards begins on page C-96. We issued unqualified opinions on the basic financial statements. We discussed issues we noted with appropriate management personnel during the audit and will report any findings as part of our scheduled financial-compliance audits of state agencies. Department of Administration and Governor's Office officials reviewed the contents of this report.

Our report on consideration of the state of Montana's internal control over financial reporting and on our tests of compliance with certain provisions of laws, regulations, and grants, which is required by *Government Auditing Standards*, is on page A-1.

All members of the financial-compliance audit staff contributed to this audit. We thank the Department of Administration director, the department's Administrative Financial Services Division staff, and the Governor's Office staff for their cooperation and assistance throughout the audit.

Respectfully submitted,

/s/ Scott A. Seacat

Scott A. Seacat
Legislative Auditor

Appointed and Administrative Officials

State of Montana

Brian Schweitzer, Governor

Department of Administration

Janet Kelly, Director

Administrative Financial Services Division

Paul Christofferson, CPA, Administrator

Accounting Bureau

Julie Feldman, Bureau Chief

Accounting Principles/Financial Reporting Section

Janet Atchison, Accountant

Charles Idehen, Accountant

Karen Simpson, Accountant

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Governor's Office

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For additional information on the Basic Financial Statements contact:

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LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
Tori Hunthausen,
Chief Deputy Legislative Auditor



Deputy Legislative Auditors:
James Gillett
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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF BASIC FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the basic financial statements of the state of Montana as of and for the fiscal year ended June 30, 2006, and have issued our report thereon dated November 21, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the state of Montana's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting, which we have reported to the management of the state of Montana during the course of our audit work.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the state of Montana's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards*. The identified instances of noncompliance are described below:

1. The Public Employees' Retirement Board manages eight defined benefit retirement systems. The Montana Constitution and state law require these systems be actuarially sound. The actuarial valuation as of June 30, 2006, indicates the Public Employees' Retirement System – Defined Benefit Retirement Plan, Sheriffs' Retirement System, and Game Wardens' and Peace Officers' Retirement System are not actuarially sound.
2. The Teachers' Retirement Board administers a defined benefit retirement system. The Montana Constitution requires this system to be actuarially sound. The actuarial valuation as of July 1, 2006, indicates the Teachers' Retirement System is not actuarially sound.

We also noted certain immaterial instances of noncompliance, which we have reported to the management of the state of Montana during the course of our audit work.

This report is intended solely for the information and use of the Legislative Audit Committee, state of Montana management, the Montana State Legislature, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Respectfully submitted,

/s/ James Gillett

James Gillett, CPA
Deputy Legislative Auditor

November 21, 2006

LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
Tori Hunthausen,
Chief Deputy Legislative Auditor



Deputy Legislative Auditors:
James Gillett
Jim Pellegrini

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the state of Montana, as of and for the year ended June 30, 2006, which collectively comprise the state's basic financial statements, as follows:

- Statement of Net Assets
- Statement of Activities
- Balance Sheet - Governmental Funds
- Reconciliation of the Balance Sheet - Governmental Funds - to the Statement of Net Assets
- Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds
- Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities
- Statement of Net Assets - Proprietary Funds
- Statement of Revenues, Expenses, and Changes in Fund Net Assets - Proprietary Funds
- Statement of Cash Flows - Proprietary Funds
- Statement of Fiduciary Net Assets - Fiduciary Funds
- Statement of Changes in Fiduciary Net Assets - Fiduciary Funds
- Combining Statement of Net Assets - Component Units
- Combining Statement of Activities - Component Units

These financial statements are the responsibility of the state of Montana's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Montana State Lottery, which represents 0.07 and 1.48 percent, respectively, of the assets and revenues of the aggregate remaining fund information. We did not audit the financial statements of the Montana University System Self-Funded Workers' Compensation Program, which represents 0.07 and 0.14 percent, respectively, of the assets and revenues of the aggregate remaining fund information. We also did not audit the financial statements of the Montana State University component units and University of Montana component units which represent 11.24 and 6.67 percent, respectively, of the assets and revenues of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for the Montana State Lottery, the Montana University System Self-Funded Workers' Compensation Program, and University component units, are based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement

presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, and each major fund and the aggregate remaining fund information of the state of Montana, as of June 30, 2006, and the respective changes in financial position and, where applicable, cash flows thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis, the Budgetary Comparison Schedule, and the Pension Plan Information are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the state of Montana's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audit of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

At June 30, 2006, the Public Employees' (PERS-DBRP), Game Wardens' and Peace Officers' (GWPORS) and Sheriffs' (SRS) retirement systems were not actuarially sound with Unfunded Actuarially Accrued Liabilities (UAAL) totaling \$460.2 million, \$5.1 million, and \$8.8 million, respectively. The maximum UAAL to comply with an amortization period of 30 years at June 30, 2006, is \$269.9 million for PERS-DBRP, \$5.1 million for GWPORS, and \$(5) million for SRS. The negative \$5 million for SRS indicates that the current employer and employee contributions do not cover the current costs of the system. At July 1, 2006, the Teachers' Retirement System was not actuarially sound with an UAAL totaling \$863.1 million and a maximum UAAL of \$467.6 million to comply with an amortization period of 30 years.

In accordance with *Government Auditing Standards*, we have issued our report dated November 21, 2006, on our consideration of the state of Montana's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Respectfully submitted,

/s/ James Gillett

James Gillett, CPA
Deputy Legislative Auditor

November 21, 2006

**The State of Montana's Management's Discussion and Analysis,
Financial Statements, Notes, Required Supplementary
Information, and Schedule of Expenditures of Federal Awards**

MANAGEMENT'S DISCUSSION AND ANALYSIS

INTRODUCTION

Management of the State of Montana provides this *Management's Discussion and Analysis* of the State of Montana's Comprehensive Annual Financial Report (CAFR) for readers of the State's financial statements. This narrative overview and analysis of the financial activities of the State of Montana is for the fiscal year ended June 30, 2006. We encourage readers to consider this information in conjunction with the additional information that is furnished in the State's financial statements, which follow.

FINANCIAL HIGHLIGHTS – PRIMARY GOVERNMENT

Government-wide Highlights

The assets of the State exceeded its liabilities at the end of fiscal year 2006 by \$6 billion (reported as net assets) compared with \$5.4 billion at the end of fiscal year 2005. Of this amount, \$665.7 million (reported as unrestricted net assets) may be used to meet the government's general obligations to citizens and creditors. Component units reported net assets of \$991.8 million compared with \$943.3 million at fiscal year 2005.

Fund Highlights

As of the close of fiscal year 2006, the State's governmental funds reported combined ending fund balances of \$2.9 billion compared with \$2.7 billion at fiscal year 2005. Of this amount, \$409.4 million is available for spending at the government's discretion (reported as unreserved fund balance). The remaining amount of \$2.4 billion is restricted for specific purposes, such as education. At the end of the fiscal year, unreserved fund balance for the General Fund was \$408.6 million compared with \$289.7 million in fiscal year 2005, which is an increase of \$118.9 million (or 41%).

The State's business-type activity funds reported net assets at the close of fiscal year 2006 in the amount of \$296.9 million compared with the fiscal year-end 2005 net assets of \$266.9 million. \$269.7 million of the business-type activity fund equity was restricted at fiscal year-end 2006 leaving an unrestricted balance of \$18.5 million. This represents a \$1.8 million (or 10.8%) increase from the fiscal year-end 2005 business-type activity fund unrestricted net asset balance of \$16.7 million.

Long-term Debt

The State's total bonds and notes payable for governmental activities increased by \$6.9 million, from \$421.6 million in fiscal year 2005 to \$428.5 million (or 6.9%) in fiscal year 2006.

Business-type activities reported bonds and notes payable of \$3.9 million at fiscal year-end 2006. This represents a decrease of \$1.3 million (or 25%) over the fiscal year-end 2005 reported amount of \$5.2 million.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the State of Montana's basic financial statements. The State's basic financial statements include three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. The report also contains additional required supplementary information (budgetary schedules). These components are described below:

Basic Financial Statements

The basic financial statements include two kinds of financial statements that present different views of the State – the *government-wide financial statements* and the *fund financial statements and combining major component unit financial statements*. These financial statements also include the *notes to the financial statements* that explain some of the information in the financial statements and provide more detail.

Government-wide Financial Statements

The *government-wide financial statements* provide a broad view of the State's operations in a manner similar to a private-sector business. The statements provide both short-term and long-term information about the State's financial position, which assists in assessing the State's economic condition at the end of the fiscal year. These are prepared using

the flow of economic resources measurement focus and the accrual basis of accounting. This basically means they follow methods that are similar to those used by most businesses. They take into account all revenues and expenses connected with the fiscal year, even if cash involved has not been received or paid. The government-wide financial statements include two statements.

The *Statement of Net Assets* presents all of the government's assets and liabilities, with the difference between the two reported as "net assets." Over time, increases or decreases in the State's net assets may serve as a useful indicator of whether the financial position of the State is improving or deteriorating.

The *Statement of Activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods (such as uncollected taxes and earned but unused vacation leave). This statement also presents a comparison between direct expenses and program revenues for each function of the State.

Both of the above financial statements have separate sections for three different types of state programs or activities. These three types of activities are:

Governmental Activities – The activities in this section are mostly supported by taxes and intergovernmental revenues (federal grants). Most services normally associated with state government fall into this category, including education (support for both K-12 public schools and higher education), general government, health services, legal and judiciary services, museums, natural resources, public safety and defense, regulatory services, social services, and transportation.

Business-type Activities – These functions are normally intended to recover all or a significant portion of their costs through user fees and charges to external users of goods and services. The major business-type activities of the State include the Unemployment Insurance Fund and the Economic Development Bond Program that assist Montana's small businesses and local governments in obtaining long-term, fixed-rate financing through private Montana lending institutions.

Discretely Presented Component Units – These are operations for which the State has financial accountability, but they have certain independent qualities as well. For the most part, these entities operate similarly to private sector businesses and the business-type activities described above. The State has three authorities and two universities that are reported as discretely presented component units of the State.

Fund Financial Statements (Reporting the State's Major Funds)

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The State, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The fund financial statements focus on individual parts of the state government, reporting the State's operations in more detail than the government-wide statements. All of the funds of the State can be divided into three categories. It is important to note that these fund categories use different accounting approaches and should be interpreted differently. The three categories of funds are:

Governmental Funds Financial Statements – Most of the basic services provided by the State are financed through governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, the governmental fund financial statements focus on near-term inflows and outflows of spendable resources. They also focus on the balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the government's near-term financing requirements. This approach is known as using the flow of current financial resources measurement focus and the modified accrual basis of accounting. These statements provide a detailed short-term view of the State's finances that assists in determining whether there will be adequate financial resources available to meet the current needs of the State.

The State has five governmental funds that are considered major funds for presentation purposes. That is, each major fund is presented in a separate column in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances. The State's five major governmental funds are the General Fund,

the State Special Revenue Fund, the Federal Special Revenue Fund, the Coal Severance Tax Fund, and the Land Grant Fund.

Proprietary Funds Financial Statements – When the State charges customers for the service it provides, whether to outside customers or to other agencies within the State, these services are generally reported in proprietary funds. Proprietary funds (enterprise and internal service) utilize accrual accounting, the same method used by private sector businesses. Enterprise funds report activities that provide supplies and services to the general public. An example is the State Lottery. An internal service fund reports activities that provide supplies and services for the State's other programs and activities such as the Motor Pool.

Fiduciary Funds – These funds are used to account for resources held for the benefit of parties outside state government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of these funds are not available to support the State's own programs. Fiduciary funds use the accrual basis of accounting. A retirement fund is an example of a fiduciary fund.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and the fund financial statements. The notes to the financial statements can be found immediately following the component unit financial statements.

Required Supplementary Information

The basic financial statements are followed by a section of required supplementary information. This section includes a budgetary comparison schedule, which includes the reconciliation between the statutory fund balance for budgetary purposes and the fund balance for the General Fund, as presented in the governmental fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Montana's overall financial position improved over the last fiscal year. This improvement was caused by the combination of budgetary cuts enacted in the previous legislative session and stronger than expected statewide economic performance.

Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The State's combined net assets (government and business-type activities) totaled \$6 billion at the end of fiscal year 2006. Net assets of the governmental activities increased \$599.8 million (or 11.8%), and business-type activities had a \$30 million (or 11.2%) increase.

A portion of the State's net assets reflects its investment in capital assets such as land, buildings, equipment and infrastructure (roads, bridges, and other immovable assets) less any related debt used to acquire those assets that is still outstanding. The State uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the State's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the State's net assets represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets may be used to meet the State's ongoing obligations to citizens and creditors. Internally imposed designations of resources are not presented as restricted net assets.

At the end of the current fiscal year, the State is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

Net Assets
As of Fiscal Year Ended June 30
(expressed in thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2005	2006	2005	2006	2005	2006
Current and other assets	\$3,407,149	\$3,562,620	\$373,018	\$410,309	\$3,780,167	\$3,972,929
Capital assets	2,805,658	3,240,577	9,670	9,110	2,815,328	3,249,687
Total assets	6,212,807	6,803,197	382,688	419,419	6,595,495	7,222,616
Long-term liabilities	451,012	451,014	7,150	9,766	452,005	460,780
Other liabilities	675,235	659,701	108,682	112,724	783,917	772,425
Total liabilities	1,120,090	1,110,715	115,832	122,490	1,235,922	1,233,205
Invested in capital assets, net of related debt	2,528,808	2,842,708	9,670	8,703	2,538,478	2,851,411
Restricted	2,159,185	2,202,592	240,514	269,687	2,399,699	2,472,279
Unrestricted	404,724	647,182	16,672	18,539	421,396	665,721
Total net assets	\$5,092,717	\$5,692,482	\$266,856	\$296,929	\$5,359,573	\$5,989,411

The following condensed financial information was derived from the government-wide Statement of Activities and reflects how the State's net assets changed during the fiscal year:

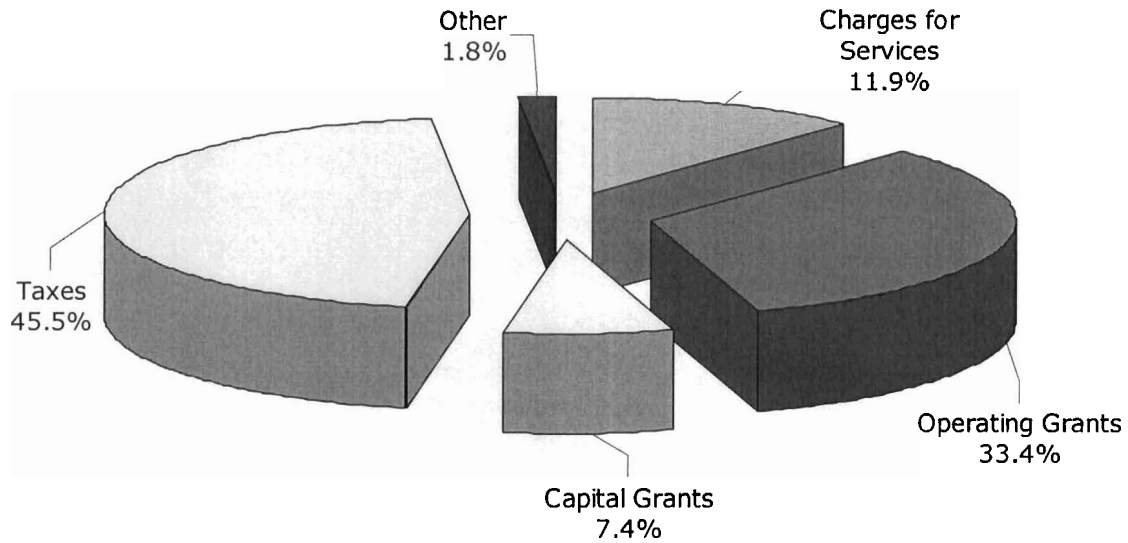
Changes in Net Assets
For Fiscal Year Ended June 30
(expressed in thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2005	2006	2005	2006	2005	2006
Revenues:						
Program revenues						
Charges for services	\$ 443,984	\$ 487,767	\$236,365	\$257,729	\$ 680,349	\$ 745,496
Operating grants	1,391,026	1,371,109	58,433	58,051	1,449,459	1,429,160
Capital grants	319,434	305,345	159	378	319,593	305,723
General revenues						
Taxes	1,657,668	1,871,808	15,624	17,317	1,673,292	1,889,125
Other	85,497	73,388	3,135	5,162	88,630	78,550
Total revenues	3,897,609	4,109,417	313,716	338,637	4,211,323	4,448,054
Expenses:						
General government	305,819	525,981	-	-	305,819	525,981
Public safety/corrections	258,610	245,810	-	-	258,610	245,810
Transportation	281,074	216,942	-	-	281,074	216,942
Health/social services	1,182,281	1,270,056	-	-	1,182,281	1,270,056
Educational/cultural	900,542	976,046	-	-	900,542	976,046
Resource/rec/envIRON	197,539	142,460	-	-	197,539	142,460
Econ dev/assistance	144,777	150,449	-	-	144,777	150,449
Interest on long-term debt	14,375	19,569	-	-	14,375	19,569
Unemployment Insurance	-	-	75,291	72,661	75,291	72,661
Liquor Stores	-	-	45,503	50,514	45,503	50,514
State Lottery	-	-	27,681	31,020	27,681	31,020
Economic Dev Bonds	-	-	2,630	3,441	2,630	3,441
Hail Insurance	-	-	3,153	4,632	3,153	4,632
Gen Govt Services	-	-	50,329	51,017	50,329	51,017
Prison Funds	-	-	5,268	5,356	5,268	5,356
MUS Group Insurance	-	-	40,524	52,139	40,524	52,139
MUS Workers Comp	-	-	2,842	2,978	2,842	2,978
Total expenses	3,285,017	3,547,313	253,221	273,758	3,538,238	3,821,071
Increase (decrease) in net assets before transfers	612,592	562,104	60,495	64,879	673,085	626,983
Transfers	29,871	34,802	(29,871)	(34,802)		
Change in net assets	642,463	596,906	30,624	30,077	673,085	626,983
Net assets, beg of year (restated)	4,450,254	5,095,576	236,232	266,852	4,686,488	5,362,428
Net assets, end of year	\$5,092,717	\$5,692,482	\$266,856	\$296,929	\$5,359,573	\$5,989,411

Governmental Activities

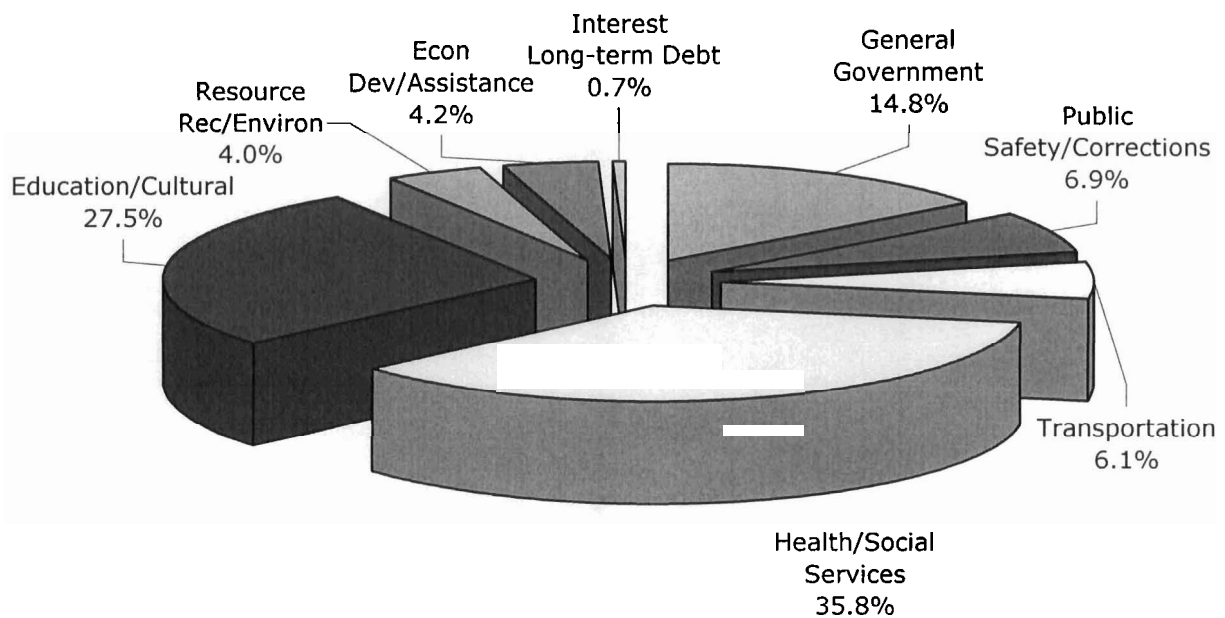
The following chart depicts revenues of the governmental activities for the fiscal year:

Revenues - Governmental Activities Fiscal Year Ended June 30, 2006



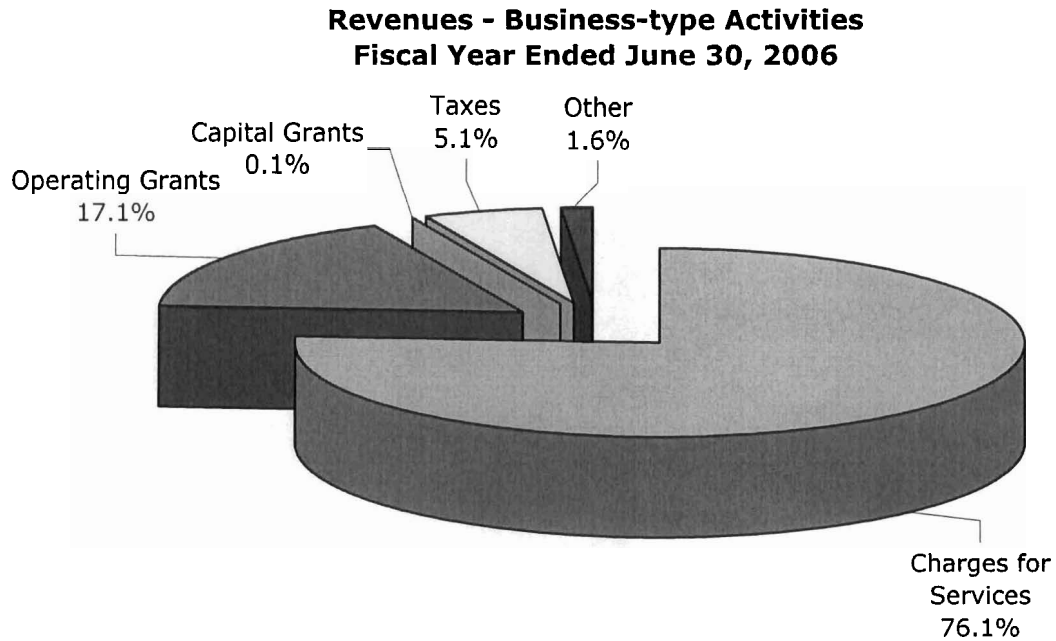
The following chart depicts expenses of the governmental activities for the fiscal year:

Expenses - Governmental Activities Fiscal Year Ended June 30, 2006

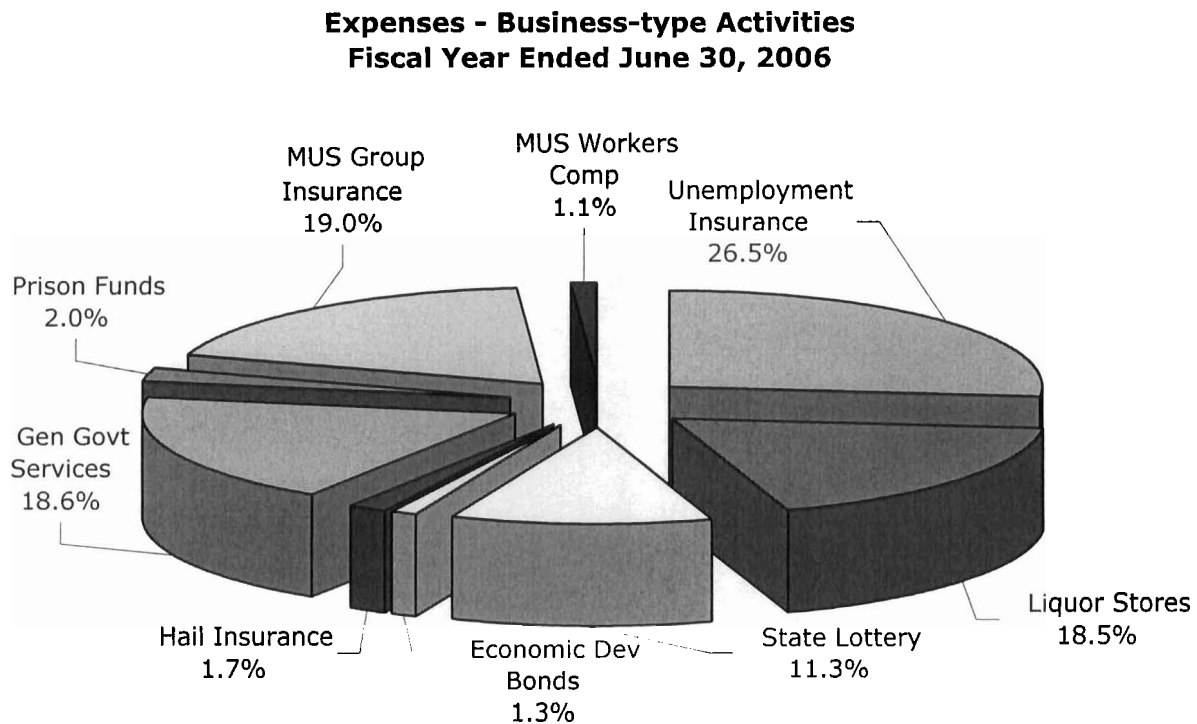


Business-type Activities

The following chart depicts revenues of the business-type activities for the fiscal year:



The following chart depicts expenses of the business-type activities for the fiscal year:



FINANCIAL ANALYSIS OF THE STATE'S MAJOR FUNDS

As the State completed the year, its governmental funds reported fund balances of \$2.9 billion. Of this total amount, \$409.4 million (or 14.1%) constitutes unreserved fund balance, which is available for spending at the government's discretion. The remainder of fund balance is reserved because it is legally segregated for a specific future use, or is not available for new spending, as it has already been dedicated for various commitments.

General Fund

The General Fund is the chief operating fund of the State. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$408.6 million. Unreserved fund balance increased during the fiscal year by \$118.9 million, primarily because of increased taxes (natural resource, individual income, corporate income, and property), and licenses and permits revenue.

General Fund Budgetary Highlights – The ending General Fund unreserved fund balance of \$409 million is \$181 million higher than the anticipated \$228 million; \$165 million of this increase is the result of revenue increases as discussed below.

Supplemental Development – General Fund supplementals approved by the Legislature included \$10.6 million for the Department of Corrections, \$5.06 million for wildfire suppression, \$2.8 million for the Department of Public Health and Human Services, and \$2.7 million for public defender costs. Additional guarantee account revenue available in the educational special revenue guarantee State Special Revenue sub-fund resulted in a reduction in General Fund expenditures by \$17 million.

Higher Revenues Than Anticipated – The General Fund experienced revenue growth significantly higher than expected in fiscal year 2006. General Fund revenues were up by \$182.8 million (or 12.5%). This represents a \$98.5 million (or 6.4%) increase over the revenue projections. The increase was primarily due to the individual and corporate income tax revenue increase of \$63.1 and \$55.7 million, respectively. Continued economic growth within Montana and the recovery of the investment market contributed to this income tax growth. Higher energy and metals prices led to increased oil, gas, and metals production within the State. This increased activity resulted in a \$30.9 million increase in natural resource tax revenues between fiscal years 2005 and 2006.

General Fund Expenditures – General Fund expenditures increased by \$214 million (or 16.1%) in 2006. This increase was primarily in General Government with a \$125 million contribution to the retirement funds resulting from the special session. Other major increases resulting from the special session and the supplemental process were in the following functions: Education/Cultural, \$43.5 million; Health and Social Services, \$30.4 million; and Corrections, \$16 million.

State Special Revenue Fund

At the end of the current fiscal year, the fund balance of the State Special Revenue Fund was \$936.8 million. Fund balance increased during the fiscal year by \$29.5 million (or 3.2%).

In the State Special Revenue Fund, natural resource taxes increased by \$40.1 million (or 47.4%), other tax revenues by \$27.7 million (or 51.2%) as discussed in Note 1, fuel taxes by \$21.4 million (or 11.2%), and licenses and permits by \$13.1 million (or 11.2%). These increased revenues were offset by a significant decrease in investment income of \$12.1 million (or -44%).

Within the State Special Revenue Fund, expenditures increased \$42.8 million in the General Government function. This primarily was due to increased oil production tax distributions of \$31.3 million to the counties. The Education/Cultural functional expenditures increased by \$14.4 million, primarily as a result of an increase in land trust (natural resource tax) distributions to the State's K-12 schools of \$11.1 million. Department of Transportation highway expenditures increased by \$68.5 million as the result of increased materials costs and internal funding adjustments.

Federal Special Revenue Fund

Fund balance in the Federal Special Revenue Fund decreased by less than 1%.

Overall revenues or expenditures did not increase significantly in the Federal Special Revenue Fund during fiscal year 2006. Significant changes within the functional categories were caused by (1) Transportation - decreased federal highway construction expenditures of \$31.8 million; (2) Public Safety/Corrections - decreased Disaster and Emergency Services funding to the State of \$5.3 million; (3) Health and Social Services - increased Medicaid Federal Medical Assistance Percentages (FMAPs) reimbursement of \$32.7 million, increased Low-Income Energy Assistance Program

administration of \$4.4 million, increased Child Health Insurance Program of \$3.9 million, and increased Food Stamp benefits of \$3 million.

Coal Severance Tax Permanent Fund

Reserved fund balance in the Coal Severance Tax Permanent Fund decreased by \$6.4 million (or .9%). This was primarily caused by decreases in natural resource taxes of \$3.2 million (or -16%) and investment income of \$34.2 million (or -71%). This was caused by decreases in the taxable valuation on the coal produced in the State and the valuation of the investments held by the fund.

Land Grant Permanent Fund

Reserved fund balance in the Land Grant Permanent Fund decreased by \$18.1 million (or 4.1%). This was caused by a decline in investment income of \$31.6 million (or 92.1%) due to the fund's lower investment valuation. Rentals and leases and royalties income increased by \$19.7 million (or 46.5%). This increase corresponds to higher natural resource production within the State during 2006 as the result of continued high gas, oil, and metals prices.

Unemployment Insurance Enterprise Fund

Net assets restricted for unemployment compensation increased by \$24.6 million (or 11.9%). Unemployment premium collections increased by \$3.9 million (or 5.3%). Unemployment benefits paid decreased by \$1.3 million. Both of these factors contributed to the increase in net assets, and are reflective of Montana's continued strong economy during 2006.

Economic Development Bonds Enterprise Fund

Net assets did not change significantly in this fund during 2006. Operating activity within this fund also did not change significantly during the year.

General Governmental Functions

Revenue sources for general governmental functions, which include the general, special revenue, debt service, capital projects, and permanent funds, increased 6.5% from fiscal year 2005 to fiscal year 2006. Revenues from various sources for fiscal year 2006, and the amount and percentage of increases and decreases in relation to prior year revenues are shown in the following table (amounts in thousands):

Revenue Source	Amount	2006 Percent of Total	Increase (Decrease) from 2005	Percent Increase (Decrease)
Licenses/permits	\$ 259,073	6.3%	\$ 13,829	5.6
Taxes	1,880,838	45.8	252,980	15.5
Chg srv/fines/forfeits/settle	162,520	4.0	17,285	11.9
Investment earnings	62,977	1.5	(80,960)	(56.2)
Securities lending income	7,511	0.2	2,342	45.3
Sales doc/merch/property	21,412	0.5	(1,243)	(5.5)
Rentals/leases/royalties	63,318	1.5	19,595	44.8
Contributions/premiums	8,785	0.2	1,041	13.4
Grants/contracts/donations	25,987	0.6	(1,997)	(7.1)
Federal	1,530,795	37.2	27,856	1.9
Federal indir cost recvy	81,922	2.0	872	1.1
Other revenues	4,693	0.2	353	8.1
Total revenues	<u>\$4,109,831</u>	<u>100.0%</u>	<u>\$251,953</u>	<u>6.5%</u>

Total expenditures for all governmental functions increased 11% from fiscal year 2005 to fiscal year 2006. Expenditures by function for fiscal year 2006, and the amount and percentage of increases or decreases in relation to the previous year amounts are depicted in the table below:

Expenditure Function	Amount (in thousands)	2006 Percent of Total	Increase (Decrease) from 2005	Percent Increase (Decrease)
General government	\$ 466,886	11.6%	\$173,078	58.9%
Public safety/corrections	254,381	6.3	15,452	6.5
Transportation	559,695	13.9	36,673	7.0
Health/social services	1,274,947	31.7	88,485	7.5
Education/cultural	976,446	24.3	71,296	7.9
Resource/recreation/environment	204,413	5.1	(2,490)	(1.2)
Economic development/assistance	151,020	3.8	4,714	3.2
Securities lending	7,663	0.2	2,758	56.2
Debt service	53,291	1.3	11,917	28.8
Capital outlay	69,505	1.8	(1,346)	(1.9)
Total expenditures	\$4,018,247	100.0%	\$400,537	11.1%

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The State's investment in capital assets for its governmental and business-type activities as of June 30, 2006, amounts to \$5 billion, net of accumulated depreciation of \$1.7 billion, leaving a net book value of \$3.3 billion. This investment in capital assets includes land, buildings, improvements, equipment, infrastructure, and construction in progress. Infrastructure assets are items that are normally immovable and of value only to the State, such as roads, bridges, streets and sidewalks, drainage systems, lighting systems, and similar items.

The total increase in the State's investment in capital assets for the current fiscal year was approximately 17.9% in terms of net book value. Most of the year's capital expenditures were for construction or reconstruction of roads and bridges. Additional information on the State's capital assets can be found in Note 5 of the notes to the financial statements.

Debt Administration

Montana receives excellent bond ratings from both Moody's Investor Service (Aa3) and Standard and Poor's Corporation (AA-). State debt may be authorized either by a two-thirds vote of the members of each house of the Legislature or by a favorable vote of a majority of the State's electors voting thereon. There is no constitutional limit on the amount of debt that may be incurred by the State. The Montana Constitution does, however, prohibit the incurring of debt to cover deficits caused by appropriations exceeding anticipated revenue.

The State of Montana's general obligation debt increased from \$213.2 million at June 30, 2005, to \$230.1 million at June 30, 2006.

The ratio of general obligation debt to personal income and the amount of general obligation debt per capita are:

	Amount (in thousands)	Percentage of Personal Income (1)	State Debt Per Capita (2)
General obligation debt	\$230,065	0.85%	\$244.69

(1) Personal income is for calendar year 2005.

(2) Based on estimated 2006 Montana population.

More detailed information regarding the State's long-term obligations is presented in Note 11 to the financial statements.

ECONOMIC CONDITION AND OUTLOOK

The unemployment rate for the State of Montana was 3.5% in the second quarter of 2006, which is a significant improvement from the rate of 4.4% during the second quarter of 2005. This compares favorably with the nation's average unemployment rate of 4.6% during the same time period.

The 59th Legislative Session adjourned on April 21, 2005, with a projected General Fund balance for the 2007 biennium of \$76.0 million. During fiscal year 2006, economic conditions continued to improve with the General Fund balance, as of June 30, 2006, ending at the \$408.9 million level.

Four of the State's retirement systems are not actuarially sound and have an unfunded actuarially accrued liability as of June 30, 2006. The actuarial condition of these plans is fully disclosed and reported as required by Generally Accepted Accounting Principles (GAAP), and explained in greater detail in Notes 6 and 18 of the financial statements. The unfunded actuarial liability is long-term in nature and does not translate into an inability of these plans to meet their current obligations in the near future. The State is very aware of this situation and is taking steps to address it.

In addition, the Sheriffs Retirement System is underfunded. This is fully disclosed and reported as required by GAAP, and explained in greater detail in Notes 6 and 18 of the financial statements. This does not translate into an inability of the plan to meet current obligations.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the State of Montana's finances for all of Montana's citizens, taxpayers, customers, investors, and creditors. The financial report seeks to demonstrate the State's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the State of Montana, Administrative Financial Services Division, Room 255 Mitchell Building, Capitol Complex, Helena, MT 59620.

STATEMENT OF NET ASSETS
JUNE 30, 2006
(amounts expressed in thousands)

	PRIMARY GOVERNMENT			COMPONENT UNITS
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	
ASSETS				
Cash/cash equivalents (Note 3)	\$ 1,096,137	\$ 302,388	\$ 1,398,525	\$ 225,030
Receivables (net)	299,478	31,161	330,639	76,881
Due from primary government	-	-	-	4,255
Due from other governments	130,384	264	130,648	21,288
Due from component units	1,542	3,570	5,112	1,028
Internal balances	(7,522)	7,522	-	-
Inventories	30,623	7,756	38,379	4,489
Advances to component units	8,802	5,215	14,017	-
Long-term loans/notes receivable	243,708	38,468	282,176	737,870
Equity in pooled investments (Note 3)	1,303,089	-	1,303,089	21,171
Investments (Note 3)	353,027	9,318	362,345	1,324,285
Securities lending collateral (Note 3)	90,178	1,304	91,482	149,779
Deferred charges	3,786	1,318	5,104	9,420
Capital assets (net) (Note 5)	3,240,577	9,110	3,249,687	517,134
Other assets	9,388	2,025	11,413	26,062
Total assets	6,803,197	419,419	7,222,616	3,118,692
LIABILITIES				
Accounts payable	403,930	7,917	411,847	65,739
Lottery prizes payable	-	2,807	2,807	-
Due to primary government	-	-	-	5,112
Due to other governments	6,133	406	6,539	-
Due to component units	4,255	-	4,255	1,028
Advances from primary government	-	-	-	14,017
Deferred revenue	30,878	6,941	37,819	22,410
Amounts held in custody for others	35,640	86	35,726	28,434
Securities lending liability (Note 3)	90,178	1,304	91,482	149,779
Other liabilities	723	256	979	9,840
Short-term debt (Note 11)	-	83,620	83,620	-
Long-term liabilities (Note 11):				
Due within one year	87,964	9,387	97,351	180,073
Due in more than one year	451,014	9,766	460,780	1,650,436
Total liabilities	1,110,715	122,490	1,233,205	2,126,868

	PRIMARY GOVERNMENT			COMPONENT UNITS
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	
NET ASSETS				
Invested in capital assets, net of related debt	\$ 2,842,708	\$ 8,703	\$ 2,851,411	\$ 295,410
Restricted for:				
Transportation	40,899	-	40,899	-
Fish, wildlife, and parks	71,610	-	71,610	-
Federal grants	26,686	-	26,686	-
Debt service/construction	8,471	-	8,471	33,595
Unemployment compensation	-	231,715	231,715	-
Funds held as permanent investments:				
Nonexpendable	1,373,924	-	1,373,924	192,868
Expendable	3,604	-	3,604	-
Housing authority	-	-	-	139,944
Resource/environment	552,687	-	552,687	-
Other purposes	124,711	37,972	162,683	100,232
Unrestricted	647,182	18,539	665,721	229,775
Total net assets	\$ 5,692,482	\$ 296,929	\$ 5,989,411	\$ 991,824

The notes to the financial statements are an integral part of this statement.

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(amounts expressed in thousands)

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES			NET (EXPENSE) REVENUE
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	
Primary government:					
Governmental activities:					
General government	\$ 525,981	\$ 59,166	\$ 53,538	\$ 4,918	\$ (408,359)
Public safety/corrections	245,810	150,787	60,752	-	(34,271)
Transportation	216,942	31,766	35,657	289,785	140,266
Health/social services	1,270,056	30,022	894,787	-	(345,247)
Education/cultural	976,046	107,096	160,526	1,022	(707,402)
Resource/recreation/environment	142,460	77,064	104,298	8,956	47,858
Economic development/assistance	150,449	31,866	61,551	664	(56,368)
Interest on long-term debt	19,569	-	-	-	(19,569)
Total governmental activities	3,547,313	487,767	1,371,109	305,345	(1,383,092)
Business-type activities:					
Unemployment Insurance	72,661	76,754	17,529	-	21,622
Liquor Stores	50,514	58,975	-	-	8,461
State Lottery	31,020	39,923	-	-	8,903
Economic Development Bonds	3,441	7	3,620	-	186
Hail Insurance	4,632	3,057	363	-	(1,212)
General Government Services	51,017	15,589	36,060	378	1,010
Prison Funds	5,356	5,717	-	-	361
MUS Group Insurance	52,139	54,164	410	-	2,435
MUS Workers Compensation	2,978	3,543	69	-	634
Total business-type activities	273,758	257,729	58,051	378	42,400
Total primary government	\$ 3,821,071	\$ 745,496	\$ 1,429,160	\$ 305,723	\$ (1,340,692)
Component units:					
Housing Authority	\$ 44,104	\$ 381	\$ 45,773	\$ -	\$ 2,050
Facility Finance Authority	323	444	105	-	226
State Compensation Insurance (New Fund)	240,157	211,953	-	-	(28,204)
State Compensation Insurance (Old Fund)	9,061	-	-	-	(9,061)
Montana Surplus Lines	678	683	-	-	5
Montana State University	394,589	164,664	156,437	5,323	(68,165)
University of Montana	307,395	137,033	109,869	3,064	(57,429)
Total component units	\$ 996,307	\$ 515,158	\$ 312,184	\$ 8,387	\$ (160,578)

The notes to the financial statements are an integral part of this statement.

	PRIMARY GOVERNMENT			COMPONENT UNITS
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	
Changes in net assets:				
Net (expense) revenue	\$ (1,383,092)	\$ 42,400	\$ (1,340,692)	\$ (160,578)
General revenues:				
Taxes:				
Property	194,617		194,617	
Fuel	212,276		212,276	
Natural resource	260,382		260,382	
Individual income	760,981		760,981	
Corporate income	153,574	-	153,574	
Other	289,978	17,317	307,295	(10)
Unrestricted grants and contributions	4,158	-	4,158	106
Settlements	28,248	-	28,248	-
Unrestricted investment earnings	36,188	1,016	37,204	45,030
Payment from State of Montana	-	-	-	151,484
Gain on sale of capital assets	53	-	53	-
Miscellaneous	4,741	4,146	8,887	1
Contributions to term and permanent endowments	-	-	-	12,153
Transfers	34,802	(34,802)	-	-
Total general revenues, contributions, and transfers	1,979,998	(12,323)	1,967,675	208,764
Change in net assets	596,906	30,077	626,983	48,186
Total net assets - July 1 - as previously reported	5,092,717	266,856	5,359,573	943,289
Prior period adjustments (Note 2)	2,859	(4)	2,855	349
Total net assets - July 1 - as restated	5,095,576	266,852	5,362,428	943,638
Total net assets - June 30	\$ 5,692,482	\$ 296,929	\$ 5,989,411	\$ 991,824

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006
(amounts expressed in thousands)

	SPECIAL REVENUE			PERMANENT			NONMAJOR	TOTAL
	GENERAL	STATE	FEDERAL	COAL SEVERANCE TAX	LAND GRANT			
ASSETS								
Cash/cash equivalents (Note 3)	\$ 394,072	\$ 462,598	\$ 40,358	\$ 66,652	\$ 9,051	\$ 74,235	\$ 1,046,966	
Receivables (net) (Note 4)	182,261	82,298	11,243	8,410	5,468	5,069	294,749	
Interfund loans receivable (Note 12)	29,044	22,922	906	-	-	-	52,872	
Due from other governments	204	567	129,610	-	-	-	130,381	
Due from other funds (Note 12)	63,006	11,129	804	-	-	94	75,033	
Due from component units	225	732	103	78	-	-	1,138	
Inventories	4,563	23,823	-	-	-	-	28,386	
Equity in pooled investments (Note 3)	-	219,661	-	460,323	422,820	200,285	1,303,089	
Long-term loans/notes receivable	143	215,373	239	-	-	27,952	243,707	
Advances to other funds (Note 12)	69	14,369	-	33,477	-	3,110	51,025	
Advances to component units	-	-	-	8,802	-	-	8,802	
Investments (Note 3)	14,898	142,071	1,894	166,889	-	8,568	334,320	
Securities lending collateral (Note 3)	-	33,269	267	23,042	20,215	12,808	89,601	
Other assets	2,038	6,364	361	-	-	-	8,763	
Total assets	\$ 690,523	\$ 1,235,176	\$ 185,785	\$ 767,673	\$ 457,554	\$ 332,121	\$ 3,668,832	
LIABILITIES AND FUND BALANCES								
Liabilities:								
Accounts payable (Note 4)	153,417	114,757	98,195	-	5,344	1,955	373,668	
Interfund loans payable (Note 12)	-	6,729	39,235	-	-	1,361	47,325	
Due to other governments	105	1,030	4,998	-	-	-	6,133	
Due to other funds (Note 12)	6,960	46,772	3,771	6,244	3,621	2,009	69,377	
Due to component units	17,332	1,025	1,766	-	-	30	20,153	
Advances from other funds (Note 12)	-	48,326	1,752	-	-	12,701	62,779	
Deferred revenue	72,346	31,031	7,949	-	-	334	111,660	
Amounts held in custody for others	20,250	15,002	297	-	87	-	35,636	
Securities lending liability (Note 3)	-	33,269	267	23,042	20,215	12,808	89,601	
Other liabilities	-	294	-	-	-	-	294	
Total liabilities	270,410	298,235	158,230	29,286	29,267	31,198	816,626	
Fund balances:								
Reserved for:								
Encumbrances	6,037	10,912	843	-	-	7	17,799	
Inventories	4,563	23,823	-	-	-	-	28,386	
Long-term loans/notes receivable	143	215,373	239	-	-	27,952	243,707	
Advances to other funds/component units	69	14,369	-	42,279	-	3,110	59,827	
Special revenue (Note 14)	-	724,161	28,042	-	-	-	752,203	
Debt service	-	-	-	-	-	4,809	4,809	
Trust principal (Note 14)	-	-	-	696,108	428,287	210,990	1,335,385	
Escheated property	721	-	-	-	-	-	721	
Unreserved, designated, reported in nonmajor (Note 1):								
Debt service funds	-	-	-	-	-	7,420	7,420	
Unreserved, undesignated	408,580	(51,697)	(1,569)	-	-	-	355,314	
Unreserved, undesignated, reported in nonmajor:								
Debt service funds	-	-	-	-	-	(637)	(637)	
Capital projects funds	-	-	-	-	-	47,272	47,272	
Total fund balances	420,113	936,941	27,555	738,387	428,287	300,923	2,852,206	
Total liabilities and fund balances	\$ 690,523	\$ 1,235,176	\$ 185,785	\$ 767,673	\$ 457,554	\$ 332,121	\$ 3,668,832	

The notes to the financial statements are an integral part of this statement.

**RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS**

JUNE 30, 2006

(amounts expressed in thousands)

Total fund balances for governmental funds	\$ 2,852,206
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore not reported in the funds.

Land	378,248	
Land improvements	20,364	
Buildings/improvements	382,320	
Equipment	78,221	
Infrastructure	3,417,984	
Other capital assets	155,088	
Construction in progress	312,296	
Intangible assets	15,311	
Less accumulated depreciation	<u>(1,607,758)</u>	
Total capital assets		3,152,074

Certain revenues are earned, but not available and therefore deferred in the funds.	81,796
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Internal service funds are used by management to charge the costs of certain activities, such as insurance and central computer services, to individual funds. The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net assets.	113,160
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Deferred issue costs are reported as current expenditures in the funds. These costs are amortized over the life of the bonds and included in governmental activities in the statement of net assets.	3,786
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Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

Accrued interest	(5,481)	
Lease/installment purchase payable	(1,721)	
Bonds/notes payable (net)	(428,538)	
Compensated absences payable	(74,248)	
Early retirement benefits payable	(49)	
Arbitrage rebate tax payable	(74)	
Other liabilities	<u>(429)</u>	
Total long-term liabilities		<u>(510,540)</u>

Net assets of governmental activities	<u>\$ 5,692,482</u>
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The notes to the financial statements are an integral part of this statement.

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(amounts expressed in thousands)

	SPECIAL REVENUE			PERMANENT			
	GENERAL	STATE	FEDERAL	COAL SEVERANCE TAX	LAND GRANT	NONMAJOR	TOTAL
REVENUES							
Licenses/permits	\$ 128,716	\$ 129,769	\$ -	\$ -	\$ 176	\$ 412	\$ 259,073
Taxes:							
Natural resource	111,413	126,355	-	16,933	-	5,217	259,918
Individual income	767,352	-	-	-	-	-	767,352
Corporate income	153,646	-	-	-	-	-	153,646
Property	180,447	14,170	-	-	-	-	194,617
Fuel	-	212,261	-	-	-	13	212,274
Other (Note 1)	209,241	81,800	-	-	-	1,990	293,031
Charges for services/fines/forfeits/settlements	36,412	84,329	30,478	-	-	11,301	162,520
Investment earnings	19,627	15,449	1,019	13,919	2,724	10,239	62,977
Securities lending income	2,240	1,411	17	1,608	1,466	769	7,511
Sale of documents/merchandise/property	402	4,141	1	-	14,068	2,800	21,412
Rentals/leases/royalties	39	966	-	-	62,153	160	63,318
Contributions/premiums	7	8,778	-	-	-	-	8,785
Grants/contracts/donations	3,286	21,679	899	-	33	90	25,987
Federal	29,103	11,575	1,490,117	-	-	-	1,530,795
Federal indirect cost recoveries	95	31,441	50,386	-	-	-	81,922
Other revenues	1,247	3,231	276	-	-	(61)	4,693
Total revenues	1,643,273	747,355	1,573,193	32,460	80,620	32,930	4,109,831
EXPENDITURES							
Current:							
General government	314,223	138,031	14,632	-	-	-	466,886
Public safety/corrections	157,976	47,393	45,041	-	-	3,971	254,381
Transportation	284	280,748	278,663	-	-	-	559,695
Health/social services	310,939	79,643	884,365	-	-	-	1,274,947
Education/cultural	697,365	92,865	182,439	-	3,767	10	976,446
Resource/recreation/environment	27,661	123,015	53,733	-	-	4	204,413
Economic development/assistance	26,655	65,187	59,178	-	-	-	151,020
Debt service:							
Principal retirement	710	396	251	-	-	31,189	32,546
Interest/fiscal charges	154	2,026	42	-	-	18,523	20,745
Capital outlay	2,339	29,570	26,016	-	-	11,580	69,505
Securities lending	2,197	1,676	17	1,580	1,440	753	7,663
Total expenditures	1,540,503	860,550	1,544,377	1,580	5,207	66,030	4,018,247
Excess of revenue over (under) expenditures	102,770	(113,195)	28,816	30,880	75,413	(33,100)	91,584
OTHER FINANCING SOURCES (USES)							
Bonds issued	-	5,700	-	-	-	31,350	37,050
Bond premium	-	1,323	-	-	-	855	2,178
Inception of lease/installment contract	628	70	178	-	-	-	876
Insurance proceeds	-	327	-	-	-	-	327
General capital asset sale proceeds	44	95	24	-	-	1	164
Transfers in (Note 12)	67,655	155,480	1,845	3,406	-	63,744	292,130
Transfers out (Note 12)	(50,728)	(22,587)	(30,694)	(40,757)	(93,563)	(20,918)	(259,247)
Total other financing sources (uses)	17,599	140,408	(28,647)	(37,351)	(93,563)	75,032	73,478
Net change in fund balances	120,369	27,213	169	(6,471)	(18,150)	41,932	165,062
Fund balances - July 1 - as previously reported	299,793	907,377	27,390	744,858	446,434	258,984	2,684,836
Prior period adjustments (Note 2)	(2,008)	527	(4)	-	3	7	(1,475)
Fund balances - July 1 - as restated	297,785	907,904	27,386	744,858	446,437	258,991	2,683,361
Increase (decrease) in inventories	1,959	1,824	-	-	-	-	3,783
Fund balances - June 30	\$ 420,113	\$ 936,941	\$ 27,555	\$ 738,387	\$ 428,287	\$ 300,923	\$ 2,852,206

The notes to the financial statements are an integral part of this statement.

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**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(amounts expressed in thousands)**

Net change in fund balances - total governmental funds \$ 165,062

Amounts reported for governmental activities in the statement of activities
are different because:

Governmental funds report capital outlay as expenditures. However, in
the statement of activities, the cost of those assets is allocated over their
estimated useful lives as depreciation expense. This is the amount by
which capital outlays exceeded depreciation in the current period. (Note 5)

Capital outlay	712,675	
Depreciation expense	(138,290)	
Excess of capital outlay over depreciation expense		574,385

In the statement of activities, only the gain or loss on the sale of capital
assets is reported. However, in the governmental funds, the proceeds
from the sale increase financial resources. Thus, the change in net
assets differs from the change in fund balance by the cost of the capital
assets sold. (158,530)

Donations of capital assets or transfers of capital assets to other funds
affects net assets in the statement of activities, but these transactions
do not appear in the governmental funds because they are not financial
resources. 3,667

Inventories of governmental funds are recorded as expenditures when
purchased. However, in the statement of activities, inventories are
expensed when consumed. 3,783

Revenues in the statement of activities that do not provide current financial
resources are not reported as revenues in the funds. (8,385)

Internal service funds are used by management to charge the costs of
certain activities, such as insurance and central computer services, to
individual funds. The net revenue (expense) of the internal service funds
is reported with governmental activities. 16,662

The incurrence of long-term debt (e.g., bonds, leases) provides current
financial resources to governmental funds, while the repayment of the
principal of long-term debt consumes the current financial resources of
governmental funds. Neither transaction, however, has any effect on net
assets. Also, governmental funds report the effect of issuance costs,
premiums, discounts, and similar items when debt is first issued, whereas
these amounts are deferred and amortized in the statement of activities.
The details of these differences is as follows:

Bonds issued	(37,050)	
Bond premium	(2,178)	
Capital lease financing	(876)	
Principal retirement	32,546	
Issuance costs deferral	1,452	
Bond issuance costs amortization	(366)	
Bond discount amortization	(13)	
Bond premium amortization	1,399	
Total long-term debt proceeds/repayment		(5,086)

Some expenditures reported in the statement of activities do not require the use of current financial resources, and therefore are not reported as expenditures in the governmental funds. The details of these differences is as follows:

Accrued interest	(233)	
Compensated absences	5,353	
Early retirement benefits	6	
Arbitrage rebate tax	21	
Other liabilities	201	
Total additional expenditures		5,348
Change in net assets of governmental activities		<u>\$ 596,906</u>

The notes to the financial statements are an integral part of this statement.

STATEMENT OF NET ASSETS
 PROPRIETARY FUNDS
 JUNE 30, 2006
 (amounts expressed in thousands)

	BUSINESS-TYPE ACTIVITIES -- ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES -- INTERNAL SERVICE FUNDS
	UNEMPLOYMENT INSURANCE	ECONOMIC DEVELOPMENT BONDS	NONMAJOR	TOTAL	
ASSETS					
Current assets:					
Cash/cash equivalents (Note 3)	\$ 229,404	\$ 11,242	\$ 61,742	\$ 302,388	\$ 49,172
Receivables (net) (Note 4)	2,516	9,305	19,301	31,122	4,650
Interfund loans receivable (Note 12)	-	-	4	4	309
Due from other governments	19	-	245	264	2
Due from other funds (Note 12)	-	4,184	239	4,423	6,072
Due from component units	50	1,720	1,844	3,614	484
Inventories	-	-	7,757	7,757	2,237
Short-term investments (Note 3)	-	-	-	-	-
Securities lending collateral (Note 3)	-	3	1,301	1,304	575
Other current assets	-	-	339	339	624
Total current assets	231,989	26,454	92,772	351,215	64,125
Noncurrent assets:					
Advances to other funds (Note 12)	-	16,131	75	16,206	-
Advances to component units	-	6,575	-	6,575	-
Long-term investments (Note 3)	-	6,117	3,201	9,318	18,706
Long-term notes/loans receivable	-	36,840	268	37,108	-
Deferred charges	-	1,299	18	1,317	-
Other long-term assets	-	-	1,686	1,686	-
Capital assets (Note 5):					
Land	-	-	800	800	236
Land improvements	-	-	2,343	2,343	95
Buildings/improvements	-	-	7,301	7,301	3,645
Equipment	-	3	5,167	5,170	190,977
Infrastructure	-	-	884	884	-
Construction in progress	-	-	309	309	4,470
Intangible assets	-	-	413	413	769
Less accumulated depreciation	-	(3)	(8,114)	(8,117)	(111,687)
Total capital assets	-	-	9,103	9,103	88,505
Total noncurrent assets	-	66,962	14,351	81,313	107,211
Total assets	231,989	93,416	107,123	432,528	171,336

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2006
(amounts expressed in thousands)

	BUSINESS-TYPE ACTIVITIES -- ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES -- INTERNAL SERVICE FUNDS
	UNEMPLOYMENT INSURANCE	ECONOMIC DEVELOPMENT BONDS	NONMAJOR	TOTAL	
LIABILITIES					
Current liabilities:					
Accounts payable (Note 4)	\$ 274	\$ 1,176	\$ 6,468	\$ 7,918	\$ 8,833
Lottery prizes payable	-	-	1,565	1,565	-
Interfund loans payable (Note 12)	-	-	258	258	5,602
Due to other governments	-	-	406	406	-
Due to other funds (Note 12)	-	4	12,849	12,853	3,298
Due to component units	-	-	-	-	52
Deferred revenue	-	-	6,940	6,940	1,014
Short-term debt (Note 11)	-	83,620	-	83,620	-
Lease/installment purchase payable (Note 10)	-	-	-	-	738
Bonds/notes payable - net (Note 11)	-	939	420	1,359	-
Amounts held in custody for others	-	-	86	86	3
Securities lending liability (Note 3)	-	3	1,301	1,304	575
Estimated insurance claims (Note 8)	-	-	7,387	7,387	12,666
Compensated absences payable (Note 11)	-	17	586	603	2,655
Arbitrage rebate tax payable	-	35	-	35	-
Other current liabilities (Note 11)	-	-	29	29	-
Total current liabilities	274	85,794	38,295	124,363	35,436
Noncurrent liabilities:					
Lottery prizes payable	-	-	1,242	1,242	-
Advances from other funds (Note 12)	-	-	-	-	4,452
Bonds/notes payable - net (Note 11)	-	2,148	430	2,578	-
Estimated insurance claims (Note 8)	-	-	6,472	6,472	16,066
Compensated absences payable (Note 11)	-	25	597	622	2,222
Arbitrage rebate tax payable	-	94	-	94	-
Other long-term liabilities (Note 11)	-	-	227	227	-
Total noncurrent liabilities	-	2,267	8,968	11,235	22,740
Total liabilities	274	88,061	47,263	135,598	58,176
NET ASSETS					
Invested in capital assets, net of related debt	-	-	8,705	8,705	89,225
Restricted for:					
Unemployment Compensation	231,715	-	-	231,715	-
Other Purposes	-	2,922	35,051	37,973	-
Unrestricted	-	2,433	16,104	18,537	23,935
Total net assets	\$ 231,715	\$ 5,355	\$ 59,860	\$ 296,930	\$ 113,160

The notes to the financial statements are an integral part of this statement.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(amounts expressed in thousands)

	BUSINESS-TYPE ACTIVITIES -- ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES -- INTERNAL SERVICE FUNDS
	UNEMPLOYMENT INSURANCE	ECONOMIC DEVELOPMENT BONDS	NONMAJOR	TOTAL	
Operating revenues:					
Charges for services	\$ -	\$ 7	\$ 110,681	\$ 110,688	\$ 106,276
Investment earnings	10,296	570	2,182	13,048	2,016
Securities lending income	-	-	57	57	61
Financing income	-	3,050	-	3,050	-
Contributions/premiums	76,754	-	70,019	146,773	112,574
Grants/contracts/donations	7,233	-	35,679	42,912	-
Taxes	-	-	17,317	17,317	-
Other operating revenues	3,493	-	922	4,415	1,986
Total operating revenues	97,776	3,627	236,857	338,260	222,913
Operating expenses:					
Personal services	-	250	10,478	10,728	37,620
Contractual services	-	22	11,261	11,283	19,761
Supplies/materials	-	10	51,488	51,498	21,927
Benefits/claims	70,459	-	95,149	165,608	88,268
Depreciation	-	-	1,222	1,222	11,091
Amortization	-	-	248	248	776
Utilities/rent	-	41	924	965	10,800
Communications	-	6	1,049	1,055	9,153
Travel	-	3	224	227	430
Repair/maintenance	-	1	522	523	8,237
Grants	-	-	1,395	1,395	-
Lottery prize payments	-	-	20,728	20,728	-
Interest expense	-	3,065	46	3,111	374
Securities lending expense	-	-	57	57	60
Arbitrage rebate tax	-	4	-	4	-
Dividend expense	-	-	1,706	1,706	-
Other operating expenses	2,201	38	1,448	3,687	2,941
Total operating expenses	72,660	3,440	197,945	274,045	211,438
Operating income (loss)	25,116	187	38,912	64,215	11,475
Nonoperating revenues (expenses):					
Insurance proceeds	-	-	-	-	38
Gain (loss) on sale of capital assets	-	-	-	-	(811)
Federal indirect cost recoveries	-	-	-	-	4,292
Increase (decrease) value of livestock	-	-	284	284	-
Total nonoperating revenues (expenses)	-	-	284	284	3,519
Income (loss) before contributions and transfers	25,116	187	39,196	64,499	14,994
Capital contributions	-	-	385	385	-
Transfers in (Note 12)	-	-	78	78	2,330
Transfers out (Note 12)	(558)	-	(34,326)	(34,884)	(662)
Change in net assets	24,558	187	5,333	30,078	16,662
Total net assets - July 1 - as previously reported	207,157	5,168	54,531	266,856	95,301
Prior period adjustments (Note 2)	-	-	(4)	(4)	1,197
Total net assets - July 1 - as restated	207,157	5,168	54,527	266,852	96,498
Total net assets - June 30	\$ 231,715	\$ 5,355	\$ 59,860	\$ 296,930	\$ 113,160

The notes to the financial statements are an integral part of this statement.

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STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(amounts expressed in thousands)

	BUSINESS-TYPE ACTIVITIES -- ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES -- INTERNAL SERVICE FUNDS
	UNEMPLOYMENT INSURANCE	ECONOMIC DEVELOPMENT BONDS	NONMAJOR	TOTAL	
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from sales and services	\$ 79,084	\$ 7	\$ 180,420	\$ 259,511	\$ 218,409
Payments to suppliers for goods and services	(5,396)	(108)	(100,233)	(105,737)	(71,755)
Payments to employees	-	(249)	(10,282)	(10,531)	(37,699)
Grant receipts	7,164	-	37,223	44,387	4,361
Grant payments	-	-	(1,395)	(1,395)	-
Cash payments for claims	(70,657)	-	(59,829)	(130,486)	(90,565)
Cash payments for prizes	-	-	(20,860)	(20,860)	-
Other operating revenues	5,338	-	1,055	6,393	1,650
Other operating payments	-	-	(1,706)	(1,706)	-
Net cash provided by (used for) operating activities	15,533	(350)	24,393	39,576	24,401
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Collection of taxes	-	-	17,312	17,312	-
Transfers to other funds	(558)	-	(30,610)	(31,168)	(662)
Transfers from other funds	-	-	61	61	2,330
Proceeds from interfund loans/advances	-	-	(25)	(25)	19,371
Payments of interfund loans/advances	-	-	(4)	(4)	(15,687)
Collection of principal and interest on loans	-	-	37	37	-
Payment of principal and interest on bonds and notes	-	(5,309)	(445)	(5,754)	(348)
Proceeds from issuance of bonds and notes	-	1,103	-	1,103	-
Net cash provided by (used for) noncapital financing activities	(558)	(4,206)	(13,674)	(18,438)	5,004
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Proceeds from insurance	-	-	-	-	38
Acquisition of capital assets	-	-	740	740	(14,521)
Proceeds from sale of capital assets	-	-	(1)	(1)	802
Principal and interest payments on bonds and notes	-	-	-	-	(142)
Net cash used for capital and related financing activities	-	-	739	739	(13,823)
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of investments	-	(2,146)	(932)	(3,078)	(6,948)
Proceeds from sales or maturities of investments	-	1,794	961	2,755	1,117
Proceeds from securities lending transactions	-	-	52	52	(229)
Interest and dividends on investments	10,296	700	2,113	13,109	2,045
Payment of securities lending costs	-	-	(50)	(50)	229
Collections of principal and interest on loans	-	20,807	-	20,807	-
Cash payment for loans	-	(22,519)	-	(22,519)	-
Arbitrage rebate tax	-	11	-	11	-
Net cash provided by (used for) investing activities	10,296	(1,353)	2,144	11,087	(3,786)
Net increase (decrease) in cash and cash equivalents	25,271	(5,909)	13,602	32,964	11,796
Cash and cash equivalents, July 1	204,133	17,151	48,140	269,424	37,376
Cash and cash equivalents, June 30	\$ 229,404	\$ 11,242	\$ 61,742	\$ 302,388	\$ 49,172

The notes to the financial statements are an integral part of this statement.

	BUSINESS-TYPE ACTIVITIES -- ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES -- INTERNAL SERVICE FUNDS	
	UNEMPLOYMENT INSURANCE	ECONOMIC DEVELOPMENT BONDS	NONMAJOR	TOTAL		
Reconciliation of operating income to net cash provided by operating activities:						
Operating income (loss)	\$ 25,116	\$ 186	\$ 38,912	\$ 64,214	\$	11,475
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:						
Depreciation			1,221	1,221		11,087
Amortization			248	248		774
Taxes			(17,317)	(17,317)		-
Interest expense		3,065	46	3,111		374
Securities lending expense		-	86	86		60
Investment Earnings	(10,296)	(570)	(2,182)	(13,048)		(2,014)
Securities lending income		-	(86)	(86)		(61)
Financing income		(3,050)		(3,050)		-
Federal indirect cost recoveries		-		-		4,291
Arbitrage rebate tax		4		4		
Change in assets and liabilities:						
Decr (incr) in accounts receivable	916	-	(1,477)	(561)		(738)
Decr (incr) in due from other funds	(50)		(110)	(160)		(508)
Decr (incr) in due from component units	(19)		(1,129)	(1,148)		(29)
Decr (incr) in due from other governments			59	59		-
Decr (incr) in inventories			(3,671)	(3,671)		(154)
Decr (incr) in other assets	-		2,353	2,353		(87)
Incr (decr) in accounts payable	(69)	14	2,932	2,877		1,943
Incr (decr) in lottery prizes payable	-	-	113	113		-
Incr (decr) in due to other funds	(65)	1	(2,506)	(2,570)		791
Incr (decr) in due to component units			(1)	(1)		29
Incr (decr) in deferred revenue			3,715	3,715		49
Incr (decr) in amounts held in custody for others			(10)	(10)		(27)
Incr (decr) in compensated absences payable			56	56		415
Incr (decr) in estimated claims			3,141	3,141		(3,269)
Net cash provided by (used for) operating activities	\$ 15,533	\$ (350)	\$ 24,393	\$ 39,576	\$	24,401
Schedule of noncash transactions:						
Capital asset acquisitions from capital leases	\$ -	\$ -	\$ -	\$ -	\$	738
Incr (decr) in fair value of investments	-	-	-	-		163
Total noncash transactions	\$ -	\$ -	\$ -	\$ -	\$	901

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2006
(amounts expressed in thousands)

	PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS	PRIVATE- PURPOSE TRUST FUNDS	INVESTMENT TRUST	AGENCY FUNDS
ASSETS				
Cash/cash equivalents (Note 3)	\$ 189,448	\$ 2,597	\$ 655,715	\$ 5,835
Receivables (net):				
Accounts receivable	16,887	-	832	408
Interest	14,178	-	-	-
Due from primary government	15,953	-	-	-
Due from other PERB plans	418	-	-	-
Long-term loans/notes receivable	135	-	-	-
Total receivables	47,571	-	832	408
Investments at fair value:				
Equity in pooled investments (Note 3)	6,673,208	-	-	-
Other investments (Note 3)	375,862	-	-	-
Total investments	7,049,070	-	-	-
Securities lending collateral (Note 3)	133,607	29	10,741	2
Capital Assets:				
Land	35	-	-	-
Buildings/improvements	158	-	-	-
Equipment	152	-	-	-
Accumulated depreciation	(271)	-	-	-
Intangible assets	833	-	-	-
Total capital assets	907	-	-	-
Other assets	4	7,847	-	10,592
Total assets	7,420,607	10,473	667,288	16,837
LIABILITIES				
Accounts payable	802	3	832	667
Due to primary government	102	-	-	-
Due to other PERB plans	418	-	-	-
Due to component units	24	-	-	-
Advances from primary government	1,360	-	-	-
Deferred revenue	75	-	-	-
Amounts held in custody for others	-	-	800	16,168
Securities lending liability (Note 3)	133,607	29	10,741	2
Compensated absences payable	394	-	-	-
Total liabilities	136,782	32	12,373	16,837
NET ASSETS				
Held in trust for pension benefits and other purposes	\$ 7,283,825	\$ 10,441	\$ 654,915	\$

The notes to the financial statements are an integral part of this statement.

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(amounts expressed in thousands)

	PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS	PRIVATE- PURPOSE TRUST FUNDS	INVESTMENT TRUST
ADDITIONS			
Contributions/premiums:			
Employer	\$ 143,922	\$ -	\$ -
Employee	152,872	-	-
Other contributions	17,461	-	1,174,981
Net investment earnings:			
Investment earnings	593,481	68	23,951
Administrative investment expense	(10,337)	-	-
Securities lending income	10,143	1	419
Securities lending expense	(9,908)	(1)	(418)
Grants/contractions/donations	-	527	-
Charges for services	432	-	-
Other additions	272	2,798	-
Payment from State of Montana	125,000	-	-
Transfers in	233	-	-
Total additions	1,023,571	3,393	1,198,933
DEDUCTIONS			
Benefits	379,923		
Refunds	19,806	-	-
Distributions	-	2,480	1,124,365
Administrative expenses:			
Personal services	2,447	-	-
Contractual services	2,409	-	-
Supplies/materials	89	-	-
Depreciation	5	-	-
Amortization	407	-	-
Utilities/rent	257	-	-
Communications	173	-	-
Travel	63	-	-
Repair/maintenance	56	-	-
Grants	-	8	-
Interest expense	58	-	-
Other operating expenses	389	-	-
Local assistance	11	-	-
Transfers to ORP	183	-	-
Transfers to PERS-DCRP	1,064	-	-
Total deductions	407,340	2,488	1,124,365
Change in net assets	616,231	905	74,568
Net assets - July 1 - as previously reported	6,667,193	9,602	580,347
Prior period adjustments (Note 2)	401	(66)	-
Net assets - July 1 - as restated	6,667,594	9,536	580,347
Net assets - June 30	\$ 7,283,825	\$ 10,441	\$ 654,915

The notes to the financial statements are an integral part of this statement

COMBINING STATEMENT OF NET ASSETS
COMPONENT UNITS

JUNE 30, 2006

(amounts expressed in thousands)

	HOUSING AUTHORITY	FACILITY FINANCE AUTHORITY	STATE COMPENSATION INSURANCE (NEW FUND)	STATE COMPENSATION INSURANCE (OLD FUND)
ASSETS				
Cash/cash equivalents (Note 3)	\$ 7,870	\$ 1,874	\$ 14,919	\$ 8,676
Receivables (net)	17,869	318	15,854	680
Due from primary government	7	-	31	-
Due from other governments	-	-	-	-
Due from component units	-	-	575	-
Inventories	-	-	-	-
Long-term loans/notes receivable	710,946	560	35	-
Equity in pooled investments (Note 3)	-	-	-	-
Investments (Note 3)	203,654	-	738,858	43,252
Securities lending collateral (Note 3)	42	30	132,439	14,894
Deferred charges	7,758	-	-	-
Capital assets (net) (Note 5)	55	-	6,601	-
Other assets	232	-	17,313	-
Total assets	948,433	2,782	926,625	67,502
LIABILITIES				
Accounts payable	3,959	10	18,557	198
Due to primary government	22	2	1,171	-
Due to component units	-	-	-	575
Advances from primary government	-	-	-	-
Deferred revenue	-	-	2,107	-
Amounts held in custody for others	-	-	22,119	-
Securities lending liability (Note 3)	42	30	132,439	14,894
Other liabilities	-	-	-	-
Long-term liabilities (Note 11):				
Due within one year	11,011	11	125,258	12,909
Due in more than one year	793,400	19	467,390	60,827
Total liabilities	808,434	72	769,041	89,403
NET ASSETS				
Invested in capital assets, net of related debt	55	-	6,601	-
Restricted for:				
Debt service/construction	-	-	-	-
Funds held as permanent investments:				
Nonexpendable				
Housing authority	139,944	-	-	-
Other purposes	-	-	-	-
Unrestricted	-	2,710	150,983	(21,901)
Total net assets	\$ 139,999	\$ 2,710	\$ 157,584	\$ (21,901)

The notes to the financial statements are an integral part of this statement.

MONTANA SURPLUS LINES		MONTANA STATE UNIVERSITY		UNIVERSITY OF MONTANA		TOTAL
\$	517	\$	98,208	\$	92,966	\$ 225,030
	120		18,120		23,920	76,881
	-		2,547		1,670	4,255
	-		13,484		7,804	21,288
	-		24		429	1,028
	-		2,729		1,760	4,489
	-		16,665		9,664	737,870
	-		14,358		6,813	21,171
	78		177,358		161,085	1,324,285
	-		1,538		836	149,779
	-		-		1,662	9,420
	-		257,256		253,222	517,134
	-		5,729		2,788	26,062
	715		608,016		564,619	3,118,692
	339		25,275		17,401	65,739
	-		3,101		816	5,112
	-		429		24	1,028
	-		8,551		5,466	14,017
	9		7,791		12,503	22,410
	-		4,024		2,291	28,434
	-		1,538		836	149,779
	-		3,785		6,055	9,840
	-		16,926		13,958	180,073
	-		160,574		168,226	1,650,436
	348		231,994		227,576	2,126,868
	-		164,232		124,522	295,410
	-		18,820		14,775	33,595
	-		84,435		108,433	192,868
	-		-		-	139,944
	275		43,444		56,513	100,232
	92		65,091		32,800	229,775
\$	367	\$	376,022	\$	337,043	\$ 991,824

COMBINING STATEMENT OF ACTIVITIES
COMPONENT UNITS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(amounts expressed in thousands)

	HOUSING AUTHORITY	FACILITY FINANCE AUTHORITY	STATE COMPENSATION INSURANCE (NEW FUND)	STATE COMPENSATION INSURANCE (OLD FUND)
EXPENSES	\$ 44,104	\$ 323	\$ 240,157	\$ 9,061
PROGRAM REVENUES:				
Charges for services	381	444	211,953	
Operating grants and contributions	45,773	105	-	
Capital grants and contributions				
Total program revenues	46,154	549	211,953	-
Net (expenses) program revenues	2,050	226	(28,204)	(9,061)
GENERAL REVENUES:				
Other taxes				(10)
Unrestricted grants and contributions	-	-	-	-
Unrestricted investment earnings	-	-	17,114	2,751
Payment from State of Montana	-	-	-	-
Miscellaneous	1	-	-	-
Contributions to term and permanent endowments	-	-	-	-
Total general revenues and contributions	1	-	17,114	2,741
Change in net assets	2,051	226	(11,090)	(6,320)
Total net assets - July 1 - as previously reported	137,960	2,484	168,674	(15,581)
Prior period adjustments (Note 2)	(12)	-	-	-
Total net assets - July 1 - as restated	137,948	2,484	168,674	(15,581)
Total net assets - June 30	\$ 139,999	\$ 2,710	\$ 157,584	\$ (21,901)

The notes to the financial statements are an integral part of this statement.

MONTANA SURPLUS LINES	MONTANA STATE UNIVERSITY	UNIVERSITY OF MONTANA	TOTAL
\$ 678	\$ 394,589	\$ 307,395	\$ 996,307
683	164,664	137,033	515,158
-	156,437	109,869	312,184
-	5,323	3,064	8,387
683	326,424	249,966	835,729
5	(68,165)	(57,429)	(160,578)
-	-	-	(10)
-	106	-	106
1	8,147	17,017	45,030
-	87,957	63,527	151,484
-	-	-	1
-	5,553	6,600	12,153
1	101,763	87,144	208,764
6	33,598	29,715	48,186
-	342,424	307,328	943,289
361	-	-	349
361	342,424	307,328	943,638
\$ 367	\$ 376,022	\$ 337,043	\$ 991,824

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NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements for the State of Montana have been prepared in accordance with Generally Accepted Accounting Principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB).

A. Reporting Entity

For financial reporting purposes, the State of Montana has included all funds which comprise the State of Montana (the primary government) and its component units. The component units are entities for which the State is financially accountable, or whose relationship with the State is such that exclusion would cause the State's financial statements to be misleading or incomplete. The GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the State to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the State.

Discretely Presented Component Units

These component units are entities which are legally separate from the State because they possess corporate powers, but are financially accountable to the State, or whose relationships with the State are such that exclusion would cause the State's financial statements to be misleading or incomplete. Complete financial statements of the individual component units, which issue separate financial statements, can be obtained from their respective administrative offices. The component unit columns of the combined financial statements include the financial data of these entities:

Housing Authority – This authority, which is a legally separate entity, is governed by a quasi-judicial board appointed by the Governor. It was created in 1975 to facilitate the availability of decent, safe, and sanitary housing to persons and families of lower income. The board issues negotiable notes and bonds to fulfill its purposes. The total amount of notes and bonds outstanding at any time may not exceed \$1.5 billion. Neither the faith and credit nor taxing power of the State of Montana may be pledged for the amounts so issued. The authority is audited annually by the State's Legislative Audit Division. The report is issued under separate cover and available at 301 South Park, Room 204, PO Box 200528, Helena, MT 59620-0545.

Facilities Finance Authority – This authority, which is a legally separate entity, is governed by a quasi-judicial board appointed by the Governor with the advice and consent of the Senate. The authority assists all eligible, non-profit Montana health care and other community-based service providers to obtain and maintain access to the broadest range of low-cost capital financing as possible. The board issues revenue bonds to fulfill its purposes. Neither the faith and credit nor taxing power of the State of Montana may be pledged for the amounts so issued. Individual audit reports are issued every two years by the State's Legislative Audit Division. The report is issued under separate cover and available at 2401 Colonial Drive, 3rd Floor, PO Box 200506, Helena, MT 59620-0506.

State Compensation Insurance Fund (New and Old) – The fund is a nonprofit, independent public corporation governed by a board appointed by the Governor. The fund provides workers compensation insurance. The fund consists of two separate entities: the New Fund and the Old Fund. The New Fund covers claims incurred after June 30, 1990, and is financed by member (employer) premiums. The Old Fund covers claims incurred before July 1, 1990. Administrative operations and budgets are reviewed by the Governor and the Legislature. The fund is audited annually by the State's Legislative Audit Division. The report is issued under separate cover and available at 5 South Last Chance Gulch, Helena, MT 59601.

Montana Surplus Lines – Montana Surplus Lines Agents Association is a legally separate entity appointed as an advisory organization by the Montana Insurance Commissioner, and primarily performs services as directed by the Commissioner, located within Montana State Auditors' Office. The Association was reactivated in 1989 to operate the Montana State Insurance Commissioner's Surplus Lines stamping office. The Association regulates insurance companies that provide specialized insurance coverage, of an unusual or high risk nature, that is not provided by other insurance companies. The association was audited by Galusha, Higgins & Galusha, PC. The report is issued under separate cover at 840 Helena Avenue, Helena, MT 59601.

Universities and Colleges – The State Board of Regents has responsibility for the following institutions: The University of Montana - Missoula and the units under it including Montana Tech of the University of Montana, The University of Montana - Western and The University of Montana - Helena College of Technology; and Montana State University - Bozeman and the units under it including Montana State

University - Billings, Montana State University - Northern, and the Montana State University College of Technology - Great Falls. All units are funded through state appropriations, tuition, federal grants, and private donations and grants. The universities are audited annually by the State's Legislative Audit Division. The reports are issued under separate cover and are available at the President's Office on each of the campuses or by contacting the Commissioner of Higher Education, 46 North Last Chance Gulch, PO Box 203101, Helena, MT 59620.

Though the following organizations perform functions related to the higher education units, they are not considered part of Montana's reporting entity: (1) Community Colleges which are considered part of local units of government; (2) the Montana Higher Education Student Assistance Corporation, a private non-profit corporation; and (3) the Student Assistance Foundation of Montana, a private non-profit corporation. Entities such as local school districts and local authorities of various kinds are considered part of local units of government and have not been included. The State's support of local public education systems is reported in the General Fund and the State Special Revenue Fund.

Fiduciary Fund Component Units

Teachers Retirement System (Pension Trust Fund) –

This retirement plan is a legally separate entity with a board appointed by the Governor. Its purpose is to provide retirement, disability, death and lump-sum payments to members of Montana's public teaching profession. The administrative costs of the Teachers Retirement System are paid from investment earnings of the fund. The plan is funded from employer and employee contributions and investment earnings. The board is a discretely presented component unit. The plan is audited annually by the State's Legislative Audit Division. Its report is issued under separate cover and is available at 1500 Sixth Avenue, PO Box 200139, Helena, MT 59620-0139.

Public Employees Retirement Board (Pension and Other Employee Benefit Trust Funds) – The board, appointed by the Governor, administers ten separate retirement plans for the purpose of providing retirement, disability, death, and lump-sum payments to each plan member. These legally separate plans include the Public Employees Defined Benefit Retirement Plan, Public Employees Defined Contribution Retirement Plan, the associated education funds, the Municipal Police Officers, the Game Wardens and Peace Officers, the Sheriffs, the Judges, the Highway Patrol Officers and the Firefighters Unified Retirement Systems, as well as the Volunteer Firefighters Compensation Act. The board also administers the State of Montana Deferred Compensation Program.

The Public Employees Retirement System (PERS) includes the Public Employees Defined Benefit Retirement Plan and the Public Employees Defined Contribution Retirement Plan, and is funded from employer and employee contributions, investment earnings and contributions from state, county, and local governments. The PERS also accounts for the administrative costs, paid from investment earnings, of the plan. The Municipal Police Officers Retirement System is funded from member, state, and city contributions. The Game Wardens and Peace Officers Retirement System is funded by employer and employee contributions. The Sheriffs Retirement System is funded by member, state, and county contributions. The Judges Retirement System is funded by member and state contributions. The Highway Patrol Officers Retirement System is funded by member and state contributions. The Firefighters Unified Retirement System is funded by employer and employee contributions as well as a portion of insurance premium taxes collected by the State. The Volunteer Firefighters Compensation Act is funded by contributions of a percentage of fire insurance premium taxes collected. The State of Montana Deferred Compensation Program is funded from member and investment earnings; there is one employer, Great Falls Transit, that contributes to the program.

The board is a discretely presented component unit responsible for the ten separate public employee retirement plans including the Deferred Compensation Program. These are reported as pension and other employee benefit trust funds. The board is audited annually by the State's Legislative Audit Division. Its report is issued under separate cover and is available at 100 North Park, Suite 200, PO Box 200131, Helena, MT 59620-0131.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the non-fiduciary activities of the State of Montana and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the State of Montana is reported separately from certain legally separate component units for which the State is financially accountable.

The Statement of Activities demonstrates the degree to which the direct expenses of a function are offset by

program revenues. Direct expenses are those that are clearly identifiable with a specific function. Certain indirect costs are included in the program expense reported for the individual functions and activities. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; and (2) grants and contributions restricted to meeting the operational or capital requirements of a particular function. Taxes and other revenues not meeting the definition of program revenues are reported as general revenues.

Separate fund financial statements are provided for governmental, proprietary, and fiduciary funds. Fiduciary fund statements are only reported on the fund financial statements. Major individual governmental and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-wide, Proprietary, and Fiduciary Fund Financial Statements

The government-wide, proprietary fund, and fiduciary fund (except for agency fund) financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Agency funds have no measurement focus. These funds report only assets and liabilities, recognizing receivables and payables using the accrual basis of accounting. Revenues are reported when earned; expenses are recorded when a liability is incurred regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all of the eligibility requirements imposed by the provider are met.

Governmental Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Revenues are considered to be available if they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the State considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures as well as expenditures relating to compensated absences and claims and judgments are recorded only when payment is due.

The major revenue sources considered susceptible to accrual are: licenses and permits, natural resource taxes, individual income taxes, corporate income taxes, property taxes, fuel taxes, and certain federal revenues (reimbursable grants and U.S. mineral royalties). All other revenue is considered to be measurable and available when the cash is received.

Fund Financial Statements

The State uses funds to report on its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

The financial activities of the State of Montana are classified into fund categories as described below:

Governmental Funds

General Fund – To account for all governmental financial resources except those required to be accounted for in another fund.

Special Revenue Funds – To account for the proceeds of specific revenue sources restricted to expenditure for specified purposes other than major capital projects.

Debt Service Funds – To account for resources accumulated for payment of principal and interest on general long-term obligation debt.

Capital Projects Funds – To account for resources used for the acquisition or construction of major capital facilities, other than those financed by proprietary or trust funds.

Permanent Funds – To account for resources that are permanently restricted to the extent that only earnings, not principal, may be used for the purposes of supporting the government's programs.

Proprietary Funds

Enterprise Funds – To account for operations: (1) financed and operated similar to private business enterprises, where the intent of the Legislature is to finance or recover costs primarily through user charges; (2) where the Legislature has decided periodic determination of revenue earned, expenses incurred, or net income is appropriate; (3) where the activity is financed solely by a pledge of the net revenues from fees and charges of the activity; (4) when laws or regulations require that the activities' costs of providing services, including capital costs, be recovered with fees and charges rather than with taxes or similar revenues. The primary focus of fee revenues charged by enterprise funds is users outside of the primary government.

Internal Service Funds – To account for the financing of goods and services provided by one department or agency to other departments, agencies, or other governmental entities on a cost-reimbursement basis.

The State of Montana reports two employee group benefits funds. The MUS Group Insurance Fund primarily charges its fees to Montana State University and the University of Montana. The universities are reported as discretely presented component units, which the State considers to be external users, and as such, reports the MUS Group Insurance Fund as an enterprise fund. The Employee Group Benefits Fund charges its fees to funds of the primary government, and as such, is reported as an internal service fund.

Fiduciary Funds

To account for assets held by the State in a trustee capacity or as an agent for individuals, private organizations, or other governments. These assets cannot be used to support the government's own programs.

Pension (and Other Employee Benefit) Trust Funds – These funds report resources that are required to be held in trust for the members and beneficiaries of the State's defined benefit plans, defined contribution plans, other retirement plans such as firefighters, police officers, teachers etc, and other post employment benefit plans. Plan members receive retirement, disability, death, and lump-sum payments from the fund. A list of the plans is included on page 185.

Private-Purpose Trust Funds – These funds are used to account for assets held by the State in a trustee capacity, where both the principal and earnings benefit individuals, private organizations, or other governments. Examples include the State's escheated property fund, unliquidated security bonds held on deposit from self-insured employers, environmental reclamation bonds held in trust, and others.

Investment Trust Fund – This fund accounts for the receipt of monies by the Montana Board of Investments for investment in the Short-term Investment Pool (STIP), an external investment pool, and the distribution of related investment earnings to local government agencies.

Agency Funds – Account for assets held by the State as an agent for individuals, private organizations, and other governments. For example, various agencies including State Auditor, Fish, Wildlife and Parks, and the Department of Natural Resources and Conservation hold deposits pending compliance with performance agreements. Other examples include monies belonging to state institution residents and child support payments from parents.

Major Governmental Funds

The General Fund is the State's primary operating fund, as defined above.

The State Special Revenue Fund accounts for all activities funded from state sources, which are restricted either legally or administratively for particular costs of an agency, program, or function.

The Federal Special Revenue Fund accounts for all activities funded from federal sources used in the operation of state government.

The Coal Tax Trust Permanent Fund, created by Article IX, Section 5 of the Montana State Constitution, receives 50% of all coal tax collections. The principal in this fund can be expended only upon affirmative vote of three-fourths of each house of the Legislature.

The Land Grant Permanent Fund accounts for lands granted to the State for support of public schools and state institutions.

Major Enterprise Funds

The Unemployment Insurance Fund accounts for employer contributions deposited with the Secretary of the Treasury of the United States to the credit of the State's unemployment trust fund. Unemployment benefits are paid from this fund to eligible recipients.

The Economic Development Bonds Fund accounts for the Economic Development Bond Act programs and the Municipal Finance Consolidation Act programs. These programs assist Montana's small businesses and local governments in obtaining long-term, fixed-rate financing through private Montana lending institutions.

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, are generally followed by both the government-wide and proprietary fund financial statements to the extent they do not conflict with or contradict guidance of GASB. Governments also have the option of following subsequent private sector guidance for their business-type activities and enterprise funds. The State has elected not to follow subsequent private sector guidance.

As a general rule, material interfund revenues have been eliminated from the government-wide financial statements. These have not been eliminated where their elimination would distort the direct costs and program revenues of the functions involved.

The State does not allocate indirect expenses to functions in the Statement of Activities.

D. Proprietary Activity Accounting and Financial Reporting

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues generally result from providing services and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for enterprise and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting these definitions are reported as non-operating.

E. Cash/Cash Equivalents

For all funds, cash and cash equivalents consist of amounts deposited in the State Treasurer's pooled cash account, cash deposits in checking accounts, cash invested in the Short-term Investment Pool (STIP), cash held by trustees, undeposited cash held by individual state agencies, and investments categorized as cash equivalents, which are short-term, highly liquid investments with original maturities of three months or less. (See Note 3).

F. Receivables

This classification, net of estimated uncollectibles, consists primarily of receivables for goods sold and services provided; short-term loans and notes; interest and dividends; taxes due within 60 days of fiscal year-end; and income, withholding, and inheritance taxes that are past due. An allowance for uncollectible taxes is provided based upon historical analysis. Further detail relating to receivables is provided in Note 4.

G. Inventories

Inventories of materials and supplies are stated at cost. The State allows agencies to use any generally accepted inventory pricing method, but specifies the first-in, first-out method should be appropriate for most agencies.

Governmental funds use the "purchase method," meaning inventory purchases are recorded as expenditures. At fiscal year-end, significant amounts of inventory are shown as a reservation of fund balance, indicating they do not constitute available expendable resources.

Proprietary and fiduciary funds report using the "consumption method," meaning inventories are expensed as used.

H. Restricted Assets

Certain investments of the Economic Development Bonds Enterprise Fund are classified as restricted assets on the Statement of Net Assets for Proprietary Funds because their use is limited by applicable bond indenture agreements.

I. Equity in Pooled Investments

The Montana Board of Investments manages the State's Unified Investment Program, which includes several internal investment pools. Participation in the pools is restricted to permanent funds, private-purpose trust funds, investment trust funds, pension trust funds, Montana University System Units, and specific funds established within the State Special Revenue Fund. The participant investments in the pools are reported at fair value in the assets within the individual funds (See Note 3 on Cash/Cash Equivalents and Investments).

J. Investments

In accordance with the Montana Constitution and the statutorily mandated "Prudent Expert Rule," the State of Montana invests in various types of securities for each portfolio it manages. Certain securities including asset-backed securities, variable-rate instruments, zero-coupon bonds, preferred stocks, and mortgage-backed securities are purchased for portfolio diversification and a competitive rate of return. Most investments are reported at fair value in the Balance Sheet or Statement of Net Assets. Investments are reported by type in the disclosure of custodial credit risk for each investment portfolio (See Note 3 on Cash/Cash Equivalents and Investments).

K. Capital Assets

Capital asset valuation is based on actual historical cost or, in the case of donations, fair market value on the date donated. General government infrastructure capital assets are capitalized and reported in the government-wide financial statements. Infrastructure assets of proprietary funds are capitalized on the fund financial statements. Interest incurred during the construction of capital assets for proprietary funds and higher education units is capitalized. The State has chosen to use the depreciation approach for infrastructure assets and is reporting accumulated depreciation in the Statement of Net Assets and depreciation expense in the Statement of Activities for these assets.

Capital assets in proprietary, private-purpose trust, and pension trust funds are accounted for within their respective funds and are depreciated. Depreciation is on

a straight-line basis with estimated useful lives of 25 to 60 years for buildings, 7 to 20 years for building improvements, 3 to 10 years for equipment, and 10 to 50 years for infrastructure. State agencies are also required to extend or shorten the useful lives of capital assets to reflect their actual experience or industry standards when appropriate.

The capitalization limit for buildings and building/land improvements is \$25,000. The capitalization threshold for infrastructure is \$500,000. Agencies are allowed to capitalize additions to collections and land acquisitions at any cost. The capitalization limit for other capital assets is set at \$5,000. Purchases under these thresholds are recorded as expenditures/expenses in the current period.

L. Deferred Revenue

Deferred revenue in the government-wide, proprietary fund, and fiduciary fund financial statements relates to unearned revenue. A liability for unearned revenue is recorded when assets are recognized in connection with a transaction prior to the earnings process being completed.

Deferred revenue in the governmental fund financial statements relates to both unearned revenue (as discussed above) and unavailable revenue. A liability for unavailable revenue is recorded when assets are recognized in connection with a transaction, but those assets are not considered available to finance expenditures of the current fiscal period.

M. Long-term Obligations

Long-term obligations expected to be financed from governmental funds are reported in the government-wide financial statements. Long-term debt is recognized as a liability of a governmental fund when due, or when resources have been accumulated in the debt service fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from current expendable available financial resources is reported as a fund liability of a governmental fund in the fund financial statements. The remaining portion of such obligations is reported in the government-wide financial statements.

Long-term liabilities expected to be financed from proprietary and fiduciary fund operations are accounted for in those funds.

N. Capital Leases

A capital lease is generally defined by GASB Statement 13, Accounting for Leases, as one which transfers benefits and risks of ownership to the lessee. At the inception of a capital lease, in the government-wide, proprietary fund, and fiduciary fund financial statements, a capital asset and a capital lease liability are recorded at the present value of the future minimum lease payments. In the governmental fund financial statements, because the modified accrual basis of accounting is used, no asset or liability is recorded related to assets under capital leases. Rather, in the governmental fund financial statements, at the inception of a capital lease, a capital outlay expenditure and an other financing source (inception of lease/installment contract) are recorded at the net present value of the minimum lease payments.

O. Bond Discounts/Premiums/Issuance Costs

Bond premiums and discounts, as well as issuance costs, are recognized in the current period for governmental funds in the fund financial statements. Bond proceeds and bond premiums are reported as an other financing source, and bond discounts are reported as an other financing use. Issuance costs are reported as debt service expenditures whether or not they are withheld from the bond proceeds. In proprietary fund types and in governmental funds as presented in the government-wide financial statements, bond premiums and discounts are deferred and amortized over the life of the bonds, which approximates the effective interest method. Bonds payable are recorded net of any applicable premium or discount, while issuance costs are reported as deferred charges.

P. Compensated Absences

Full-time state employees earn vacation leave ranging from 15 to 24 days per year depending on the individual's years of service. Teachers employed by the State do not receive vacation leave. Vacation leave may be accumulated and carried over from one year to the next. The carryover is limited to two times the maximum number of days earned annually. Sick leave is earned at the rate of 12 days per year with no limit on accumulation. Each contribution year, an employee may contribute a maximum of 40 hours of sick leave to a nonrefundable sick leave pool. Based on a review, the adjusted ending balance of the pool for June 30, 2005, was 1,588 hours. For fiscal year 2006, 1,956 hours were contributed to the sick leave pool and 964 hours were withdrawn, leaving a balance of 2,580 hours in the pool. No liability is reported in the accompanying financial statements because these hours are

nonrefundable to participants except by grants approved through an application process.

Vested or accumulated leave for proprietary and fiduciary funds is recorded as an expense and liability of those funds in the fund financial statements. For governmental funds, the liability is not expected to be liquidated with expendable financial resources. The expenditure and liability for the governmental funds is reported only in the government-wide financial statements. Upon retirement or termination, an employee is paid for 100% of unused vacation leave and 25% of unused sick leave.

Q. Advances to Other Funds

Noncurrent portions of long-term interfund receivables are reported as advances and are offset equally by a fund balance reserve account in the fund financial statements, which indicates that they do not constitute expendable available financial resources. The transaction is recognized by the receiving fund as advances from other funds.

R. Fund Balance/Net Assets

The State reserves those portions of fund balance not appropriable for expenditure or legally segregated for a specific future use. Designated fund balances represent tentative plans for the future use of financial resources. The debt service funds designated fund balances represent management's desire to maintain fund balance for future debt service payments.

T. Other Taxes

On the Statement of Revenues, Expenditures and Changes in Fund Balances for Governmental Funds, the revenue category "Other Taxes" in the General, State Special Revenue, and Nonmajor Governmental funds consists of the following taxes (in thousands):

	General Fund	State Special Revenue Fund	Nonmajor Governmental Funds	Total
Accommodations	\$ 10,548	\$14,552	\$ -	\$ 25,100
Agriculture sales	-	3,540	-	3,540
Cigarette/tobacco	38,894	48,456	1,990	89,340
Fire protection	-	2,444	-	2,444
Insurance premium	58,596	-	-	58,596
Livestock	-	3,367	-	3,367
Other taxes	22,914	6,355	-	29,269
Public Service Commission	-	3,068	-	3,068
Telephone license	20,860	-	-	20,860
Video gaming	57,429	18	-	57,447
Total other taxes	\$209,241	\$81,800	\$1,990	\$293,031

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through constitutional provisions or enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The government-wide Statement of Net Assets reported restricted net assets (in thousands) of \$2,472,279 of which \$484,411 is restricted by enabling legislation.

S. Property Taxes

Real property taxes are levied in October and are payable in two installments on November 30 and May 31. These taxes attach as an enforceable lien immediately if not paid when due.

Personal property tax levies are set each August, and notices are normally mailed the following March or April. Half of mobile home taxes are due in 30 days and the remaining half on September 30. Taxes on all other types of personal property are to be paid in full 30 days after receipt of the notice. Personal property taxes attach as an enforceable lien immediately if not paid when due. Property taxes are collected by each of Montana's 56 counties. The counties then remit the State's portion to the State Treasury. The majority of these taxes help fund public school systems and higher education.

NOTE 2. OTHER ACCOUNTING ISSUES

A. New Accounting Guidance Implemented

For the year ended June 30, 2006, the State implemented GASB Statement 43, Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries. The State did not have any impairment of capital assets to disclose for fiscal year 2006.

GASB Statement 44, Economic Condition Reporting: The Statistical Section (an amendment of NCGA Statement 1) was also implemented for the year ended June 30, 2006.

In addition, for the year ended June 30, 2006, the State implemented GASB Statement 47, Accounting for Termination Benefits, which provides guidance on how employers should account for benefits associated with either voluntary or involuntary terminations. During fiscal year 2006, the State did not recognize a liability and expense for voluntary termination benefits (i.e., early-retirement incentives) or involuntary termination benefits such as severance benefits for its employees.

B. Prior Period Adjustments

Prior period adjustments reported in the accompanying financial statements relate to corrections of errors from prior periods. The most significant of these adjustments affected the governmental activities column in the Statement of Activities, and related to various capital asset corrections.

NOTE 3. CASH/CASH EQUIVALENTS AND INVESTMENTS

This note details the following asset classifications (in thousands):

Cash/cash equivalents	\$2,477,151
Equity in pooled investments	\$7,997,467
Investments	\$2,062,491

Carrying amounts for the bank balance for Cash Deposits and fair values for the State's cash equivalents and investments are presented in Tables 1 through 4.

A. General

(1) Cash and cash equivalents consist of funds deposited by individual funds in the State Treasurer's pooled cash account, cash deposits in checking accounts, cash invested in the Short-term Investment Pool, cash held by trustees, undeposited cash held by individual state agencies, and investments categorized as cash equivalents.

Cash deposited with the State Treasurer's pooled cash account is invested by the Montana Board of Investments (BOI) in short-term securities and other investments. Because these funds are immediately available to the individual funds, their investment in the pooled cash account is reported as a cash equivalent. In addition to the State Treasurer's pooled cash account, there is the Short-term Investment Pool (STIP) maintained by the BOI. This investment fund provides individual state agencies and local governments an opportunity to invest excess cash in a money market fund. Because these pooled funds are invested in short-term, highly liquid investments, the individual fund investments in the STIP are reported as a cash equivalent.

Although STIP, an external investment pool, is not registered with the Securities and Exchange Commission (SEC) as an investment company, the BOI has as policy that STIP will, and does, operate in a manner consistent with the SEC Rule 2a7. By meeting certain conditions, STIP, as a 2a7-like pool, is allowed to use amortized cost rather than fair value to report net assets to compute unit values. Investments held are reported at fair value, annually, and the difference between amortized cost and fair value is reflected as an unrealized gain or loss in the investments managed. The portfolio is carried at amortized cost or book value. State agencies that are allowed to retain their interest earnings within their funds are required to invest in STIP. Local government participation in STIP is voluntary. Separately issued external investment pool financial statements may be obtained by contacting the Montana Board of Investments, 2401 Colonial Drive, 3rd Floor, PO Box 200126, Helena, MT 59620-0126.

The State's cash equivalents and investments are detailed in Table 2 - Cash Equivalents, Table 3 - Equity in Pooled Investments, and Table 4 - Investments to disclose the level of investment risk, when applicable, assumed by the State at June 30, 2006.

(2) All securities are reported by investment portfolio and type in Table 2 - Cash Equivalents, Table 3 - Equity in Pooled Investments, and Table 4 - Investments. The State invests in certain types of securities, including U.S. government direct-backed, U.S. government indirect-backed, corporate stock/bonds, foreign government bonds, municipals,

equity index, preferred stock, convertible equity securities, American Depositary Receipts (ADRs), equity derivatives, venture capital, leveraged buyout, mezzanine, distressed debt, special situation and secondary investments, and cash equivalents, to provide a diversified investment portfolio and an overall competitive rate of return.

U.S. government direct-backed securities include direct obligations of the U.S. Treasury and obligations explicitly guaranteed by the U.S. government. U.S. government indirect-backed obligations include U.S. government agency and mortgage-backed securities. U.S. government mortgage-backed securities reflect participation in a pool of residential mortgages.

Common stock represents ownership units (shares) of a public corporation. Common stock owners are entitled to vote on director selection and other important matters, as well as receive dividends on their holdings. Equity index investments are investments in selected mutual funds whose equity portfolios match a broad based index or composite. Preferred stock, as a class of stock, pays dividends at a specified rate and has preference in the payment of dividends and liquidation of assets. Preferred stock holders, ordinarily, do not have voting rights. Convertible securities are securities carrying the right to exchange, or “convert” the instrument for other securities of the issuer or of another issuer. This definition most often applies to preferred stocks or corporate bonds carrying the right to exchange for a fixed number of shares of the issuer’s common stock. ADRs are receipts issued by a U.S. depository bank representing shares of a foreign stock or bonds held abroad by the foreign sub-custodian of the American depository bank. Equity derivatives “derive” their value from other equity instruments such as futures and options.

Venture capital represents private equity investments in early stage financing of rapidly growing companies with an innovative product or service. Leveraged buyouts (LBOs) permit an investment group to acquire a company by leveraging debt, as a financing technique, to establish a significant ownership position on behalf of the company’s current management team. Mezzanine investments are the subordinated debt and/or equity of privately-owned companies. The debt holder participates in equity appreciation through conversion features, such as rights, warrants, and/or options.

Distressed debt represents the private and public debt of companies that appear unlikely to meet their financial obligations.

Special situation investments include the investment in the exploration for oil and/or gas reserves or in the development of proven reserves, investment in land to harvest timber, and investments that have a special component usually related to geographical, economic, or social issues. Secondary investments are investments in previously owned limited partnerships. These investments may be direct or via a general partner specializing in secondary investments. Private equity investments are long-term, by design, and extremely liquid.

Investments are presented in the Statement of Net Assets at fair value. Fair values for investment pool securities are determined primarily by reference to market prices supplied to the BOI by BOI’s custodial bank, State Street Bank. Amortized cost represents the original cost, adjusted for premium and discount amortization, where applicable. Premiums and discounts are amortized/accreted using the straight-line or scientific method to the call, average life or maturity date of the securities. Amortized cost may also be referred to as book value.

Under the provisions of state statutes, the State has, via a Securities Lending Authorization Agreement, authorized the State’s agent to lend the State’s securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. During the period the securities are on loan, the State receives a fee and the agent must initially receive collateral equal to 102% to 105% of the fair value of the loaned securities and maintain collateral equal to not less than 100% of the fair value of the loaned security. During the fiscal year, the State’s agent loaned, on behalf of the State, certain securities held by the agent and received U.S. dollar currency cash, U.S. government securities, and irrevocable bank letters of credit as collateral. The State’s agent does not have the ability to pledge or sell collateral securities unless the borrower defaults. The State retains all rights and risks of ownership during the loan period. At year-end, the BOI has no credit risk exposure to borrowers because the amount the BOI owes the borrowers exceed the amount the borrowers owe the system.

B. Cash/Cash Equivalents

(1) **Cash Deposits** – The State requires collateralization based on the average daily bank balance in the depository bank holding the main State bank account. For other depository banks, state statutes require collateralization at 50% of the bank balance. The cash deposits amount includes both primary government and component unit deposits.

Table 1 - Cash Deposit Amounts
(in thousands)

	Carrying Amount
Cash held by State/State's agent	\$ 30,186
Uninsured and uncollateralized cash	4,917
Undeposited cash	1,418
Cash in U.S. Treasury	229,469
Cash in MSU component units	5,917
Cash in UM component units	8,334
Less: outstanding warrants	(56,134)
Total cash deposits	\$224,107

As of June 30, 2006, the carrying amount of deposits for component units was \$92,306,495, as included in Table 1

(2) **Cash Equivalents** – consists of cash in the State Treasury invested by individual funds in the Short-term Investment Pool (STIP), the Treasurer's Cash Pool, and in identifiable securities and investments considered to be cash equivalents. Cash equivalents, generally, are short-term, highly liquid investments with original maturities of three months or less. Cash equivalents may be under the control of the Board of Investments or other agencies, as allowed by law.

Table 2 - Cash Equivalents
(in thousands)

	Fair Value	Credit Quality Rating	Fund
Commercial paper	\$1,421,009	A1	Various
Corporate fixed	293,961	A1+	Various
Corporate variable-rate	224,992	A1+	Various
Municipal variable-rate	248,884	A1+	Various
Repurchase agreement (1)	18,643	NR	Various
Government direct-indirect (2)	205,126	AAA	Various
Money market	65,289	NR	Various
Less: STIP included in pooled investment balance	(224,859)		
Total cash equivalents	\$2,253,045		
Securities lending collateral investment pool	\$ 36,072		

(1) As of June 30, 2006, a repurchase agreement, per contract, was collateralized at 102% for \$19,024,084 by a Federal Home Loan Mortgage Corporation REMIC maturing July 15, 2033.

(2) The government direct-indirect securities are included in the credit quality rating and effective duration table in Note 3 D (investments).

As of June 30, 2006, local governments invested \$654,914,928 in STIP.

As of June 30, 2006, component units of the State of Montana had investments in cash equivalents with a book value and fair value of \$393,690,026.

Investment Risk Disclosures

The investment risk disclosures are described in the following paragraphs and are identified by the specific pools or securities to which they pertain, when applicable.

Credit Risk

Credit risk is defined as the risk that an issuer or other counterparty to an investment will not fulfill its obligation. The STIP securities have credit risk as measured by major credit rating services. This risk is that the issuer of a STIP security may default in making timely principal and interest payments. The Board of Investment's policy requires that STIP securities have the highest investment grade rating in the short-term category by at least one of the Nationally Recognized Statistical Rating Organizations (NRSRO).

Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk, and do not require disclosure of credit quality per GASB Statement 40.

STIP investments are categorized above to disclose credit risk as of June 30, 2006. Credit risk reflects the security quality rating, by investment security type, as of the June 30 report date. If a security investment type is unrated, the quality type is indicated by NR (not rated). Although the STIP investments have been rated by investment security type, STIP, as an external investment pool, has not been rated by the NRSRO.

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. As of June 30, 2006, all STIP securities were registered in the nominee name for the Montana Board of Investments and held in the possession of the board's custodial bank, State Street Bank, or the State's name.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The STIP Investment Policy Statement does not specifically address concentration of credit risk. The policy does provide for "a minimum of three (3%) percent or \$15 million, whichever is higher, to be invested in repurchase agreements." The STIP investments had concentrations of credit risk exposure to the Federal Home Loan Bank of 6.59% as of June 30, 2006.

The concentration of credit risk for the rated securities is included in the disclosure in Note 3 D (investments).

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. According to GASB Statement 40, interest rate disclosures are not required for STIP, since STIP is a "2a-7-like pool".

Corporate asset-backed securities are based on cash flows from principal and interest payments on underlying auto loan receivables, credit card receivables, and other assets. These securities, while sensitive to prepayments due to interest rate changes, have less credit risk than securities not backed by pledged assets.

While variable-rate (floating-rate) securities have credit risk identical to similar fixed-rate securities, their interest rate risk is more sensitive to interest rate changes. However, their fair value may be less volatile than fixed-rate securities because their value will usually remain at or near par as a result of their interest rates being periodically reset to maintain a current market yield.

Legal Risk

As of June 30, 2006, Montana was not aware of any legal risks regarding any investments.

C. Equity in Pooled Investments

These securities consist of investments held by pooled investment funds. The Montana Domestic Equity Pool (MDEP), Trust Funds Bond Pool (TFBP), Retirement Funds Bond Pool (RFBP), Montana International Equity Pool (MTIP), Montana Private Equity Pool (MPEP), and Montana Real Estate Pool (MTRP) were created to allow qualifying funds to participate in diversified investment pools. Purchases are subject to the statutorily mandated "Prudent Expert Principle".

Table 3 – Equity in Pooled Investments
(in thousands)

	Carrying Amount	Fair Value
MDEP:		
Common Stock Pool	\$1,142,029	\$1,307,594
Equity Index Funds	1,248,314	1,428,148
DFA Small Cap Subtrust	133,994	213,902
MidCap Equity Index Fund	165,000	191,368
SPIFF	11,533	11,692
TFBP:		
Corporate bonds (rated)	642,663	643,217
Corporate bonds (unrated)	3,756	3,813
Foreign government bonds	9,933	9,700
Municipal government bonds (rated)	1,135	1,168
Municipal government bonds (unrated)	2,656	2,656
U.S. government direct-backed	58,200	58,629
U.S. government indirect-backed	518,980	509,562
Repurchase agreement (rated)	269	269
STIP	85,583	85,583
RFBP:		
Corporate bonds (rated)	932,793	930,858
Corporate bonds (unrated)	14,036	13,929
Foreign government bonds	4,967	4,850
U.S. government direct-backed	54,701	55,508
U.S. government indirect-backed	736,638	722,334
Repurchase agreement (rated)	448	448
STIP	109,117	109,117
MTIP:		
BGI MSCI Europe Index	546,725	768,769
BOI MSCI Pacific Index	40,005	65,943
DFA International Small Company	78,149	93,071
ISPIFF/SPIFF	28,001	30,496
Schroder Investment Management	114,423	139,113
Nomura Asset Management USA	105,769	143,656
MPEP:		
Private equities	321,925	369,684
State Street SPIFF	31,233	31,043
MTRP:		
STIP	30,160	30,160
Total pooled investments	7,173,135	7,976,280
Pool adjustments (net)	21,187	21,187
Total equity in pooled investments	<u>\$7,194,322</u>	<u>\$7,997,467</u>

At June 30, 2006, the carrying and fair value of the underlying securities on loan was \$188,635,282 and \$193,032,691, respectively. The collateral provided for the securities on loan totaled \$199,919,664.

As of June 30, 2006, component units of the State of Montana had equity in pooled investments with a book value of \$4,570,282,809 and a fair value of \$6,694,378,176, as included in Table 3.

Investment Risk Disclosures

The investment risk disclosures are described in the following paragraphs, and are identified by the specific pools to which they pertain, when applicable.

Credit Risk

Credit risk is defined as the risk that an issuer or other counterparty to an investment will not fulfill its obligation. With the exception of the U.S. government securities, the pool fixed-income instruments have credit risk as measured by major credit rating services. This risk is that the issuer of a fixed-income security may default in making timely principal and interest payments. The Board of Investment's policy requires pool fixed-income investments, at the time of purchase, to be rated an investment grade as defined by Moody's or by Standard & Poor's (S&P) rating services. The U.S. government securities are guaranteed directly or indirectly by the U.S. government. Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality. The credit ratings presented in the previous table are provided by S& P's rating services. If an S&P rating is not available, a Moody's rating has been used.

As of June 30, 2006, Northwest Airlines Inc. presented a higher credit risk to the board. The TFBP held a \$9,255,000 par 4.64% Northwest Airlines Inc. real estate backed bond maturing July 7, 2010. The book value of this security was \$9,255,000 as of June 30, 2006, and is secured by Northwest Airlines Inc.'s corporate headquarters building and land. The RFBP held a \$5,745,000 par 4.64% Northwest Airlines Inc. real estate backed bond maturing July 7, 2010. The book value of this security was \$5,745,000 as of June 30, 2006, and is secured by Northwest Airlines Inc.'s corporate headquarters building and land.

As of June 30, 2006, Burlington Industries, Inc. presented a legal and higher credit risk to the board. TFBP owns a Burlington Industries, Inc., \$4 million par, 7.25% bond maturing September 15, 2005. RFBP owns a Burlington Industries, Inc., \$6 million par, 7.25% bond maturing September 15, 2005. In September 2000, the company announced a reduction of stockholders equity. Due to an increasing senior bank line and declining credit trend, the bond ratings for these issues were downgraded, in May 2001, by the Moody's and Standard & Poor's rating agencies. During fiscal year 2001, the TFBP book value of Burlington Industries Inc. was reduced from the August 31, 2000 book value of \$3,739,760 to \$1,600,000. Due to the company's filing for Chapter 11 bankruptcy protection on November 11, 2001, the book value was reduced to \$800,000. In October 2003, Burlington Industries, Inc. received court approval to sell its assets. Under the company's recovery plan, the TFBP received \$969,974 in August 2004 for its unsecured claim. This

transaction reduced the book value to \$0 and generated a gain of \$169,974. In February 2005 and May 2005, the TFBP received an additional \$139,180 and \$129,498, respectively, for its unsecured claim. In May 2006, the Board received an additional \$105,519. During fiscal year 2001, the RFBP book value of Burlington Industries Inc. was reduced from the August 31, 2000 book value of \$5,609,640 to \$2,400,000. Due to the company's filing for Chapter 11 bankruptcy protection on November 11, 2001, the book value was reduced to \$1,200,000. In October 2003, Burlington Industries, Inc. received court approval to sell its assets. Under the company's recovery plan, the RFBP received \$1,454,961 in August 2004 for its unsecured claim. This transaction reduced the book value to \$0 and generated a gain of \$254,961. In February 2005 and May 2005, the RFBP received an additional \$208,771 and \$194,247, respectively, for its unsecured claim. In May 2006, the Board received an additional payment of \$158,278. Both the TFBP and RFBP are expected to receive the final distribution in September 2006.

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. As of fiscal year end, all the fixed-income securities were registered in the nominee name for the Montana Board of Investments. The State Street repurchase agreement was purchased in the State of Montana Board of Investments name.

As of June 30, 2006, MTRP's single investment was in STIP.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. Investments issued or explicitly guaranteed by the U.S. government are excluded from the concentration of credit risk requirement.

According to the TFBP and RFBP investment policies, with the exception of U.S. government indirect-backed (agency) securities, additional TFBP or RFBP portfolio purchases will not be made in a credit if the credit risk exceeds 2 percent of the portfolio at the time of purchase". As of June 30, 2006, the TFBP had concentration of credit risk exposure to the Federal Home Loan Mortgage Corp of 7.75%. As of June 30, 2006, the RFBP had concentration of credit risk exposure to the Federal Home Loan Mortgage Corp of 5.50%.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The TFBP and RFBP investment pool policies do not formally address interest rate risk. In accordance with GASB Statement 40, the board has selected the effective duration method to disclose interest rate risk. This information, as provided by our custodial bank, is "An option-adjusted measure of a bond's (or portfolio's) sensitivity to changes in interest rates. Duration is calculated as the average percentage change in a bond's value (price plus accrued interest) under shifts of the Treasury curve plus/minus 100 basis points. The effective duration method incorporates the effect of the embedded options for bonds and changes in prepayments for mortgage-backed securities (including pass-throughs, CMOs, and ARMs)."

Corporate asset-backed securities are based on cash flows from principal and interest payments on underlying auto loan receivables, credit card receivables, and other assets. These securities, while sensitive to prepayments due to interest rate changes, have less credit risk than securities not backed by pledged assets.

State of Montana investments are categorized below to disclose credit and interest rate risk as of June 30, 2006, as required for applicable pools. Credit risk reflects the bond quality rating, by investment type, as of the June 30 report date. Interest rate risk is disclosed using effective duration. If a bond investment type is unrated, the quality type is indicated by NR (not rated). Both the credit quality ratings and duration have been calculated excluding cash equivalents. If duration has not been calculated, duration is indicated by NA (not applicable).

According to GASB Statement 40, "interest rate disclosures are not required for pooled investments if the pool is a 2a-7 like pool". Because STIP operates as a 2a-7 like pool, this exclusion applies to MTRP.

As reported in the U.S. government indirect-backed category, the TFBP portfolio holds REMICs totaling \$84,804 at amortized cost as of June 30, 2006. The RFBP portfolio holds REMICs totaling \$387,052 in amortized cost as of June 30, 2006. These securities are based on separate or combined cash flows from principal and interest payments on underlying mortgages.

In regard to RFPB, the Interest Only (IO) securities are more sensitive to prepayments by mortgagees resulting from interest rate changes than other REMIC securities. The IO REMIC securities purchased in August and September 1992 carry an amortized cost of \$3 as of June 30, 2006.

The TFBP holds one inverse variable-rate corporate \$15 million par bond. The RFBP holds one inverse variable-rate corporate \$25 million par bond. The quarterly coupon is calculated at a set rate less the 12-month LIBOR in arrears. As interest rates increase, the coupon paid will decline.

TFBP
Credit Quality Rating and Effective Duration as of June 30, 2006
(in thousands)

Security Investment Type	Fair Value	Credit Quality Rating	Effective Duration
Corporate bonds (rated)	\$ 643,217	A	4.93
Corporate bonds (unrated)	3,813	NR	1.48
Foreign government bonds	9,700	BBB	5.83
Municipal government bonds (rated)	1,168	AA	2.70
Municipal government bonds (unrated)	2,656	NR	3.94
U.S. government direct-backed	58,629	AAA	7.37
U.S. government indirect-backed	509,562	AAA	4.77
State Street repurchase agreement (rated) (1)	269	AA-	NA
STIP	85,583	NR	NA
Total fixed-income investments	<u>\$1,314,597</u>	<u>AA-</u>	<u>4.97</u>
Securities lending collateral investment pool	<u>\$ 61,814</u>	NR	NA

(1) At June 30, 2006, the State Street Bank repurchase agreement was collateralized at \$269,625 by an AAA-rated Federal Home Loan Mortgage Corporation note maturing May 15, 2008.

RFBP
Credit Quality Rating and Effective Duration as of June 30, 2006
(in thousands)

Security Investment Type	Fair Value	Credit Quality Rating	Effective Duration
Corporate bonds (rated)	\$ 930,859	A	5.20
Corporate bonds (unrated)	13,929	NR	3.81
Foreign government bonds	4,850	BBB	5.83
U.S. government direct-backed	55,508	AAA	6.87
U.S. government indirect-backed	722,334	AAA	4.73
State Street repurchase agreement (rated) (1)	448	AA-	NA
STIP	109,116	NR	NA
Total fixed-income investments	\$1,837,044	AA-	5.05
Securities lending collateral investment pool	\$ 84,097	NR	NA

(1) At June 30, 2006, the State Street Bank repurchase agreement was collateralized at \$449,375 by an AAA-rated Federal Home Loan Mortgage Corporation note maturing May 15, 2008.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. Several MPEP investments represent limited partnership investments in various foreign countries. Per GASB Statement 40, no foreign currency risk disclosure is required for these limited partnership investments. As provided for in the partnership agreements, currency exposures may be hedged, partially or fully, at the discretion of the manager, to preserve the U.S. dollar value of investments made. Currency speculation, such as over-hedging, reverse hedging or other trading activity not specifically aimed at preserving the U.S. dollar value of investments, is not authorized.

The U.S. dollar balances of the MTIP cash and investments are disclosed by currency in the following table.

MTIP
Cash by Currency
(in thousands)

Cash	2006	
	Carrying Amount	Fair Value
Australian Dollar	\$ 67	\$ 68
Hong Kong Dollar	700	699
Japanese Yen	1,305	1,317
South Korean Won	24	24
Malaysian Ringgit	8	8
Philippine Peso	2	3
Singapore Dollar	1,365	1,368
New Taiwan Dollar	168	168
Total cash	\$3,639	\$3,655

The MTIP, through the funds below, has significant investments in 11 foreign countries. Future economic and political developments in these countries could adversely affect the liquidity or value, or both, of the securities held by the funds in which MTIP is invested.

MTIP
Investment by Security Type
(in thousands)

Security Investment Type	2006	
	Carrying Amount	Fair Value
BGI MSCI Europe Index	\$546,725	\$ 768,769
BGI MSCI Pacific Index	40,005	65,943
DFA International Small Company	78,149	93,071
ISPIFF/SPIFF	28,001	30,496
Schroder Investment Management	114,423	139,113
Nomura Asset Management U.S.A., Inc.	105,769	143,656
Total investments	<u>\$913,072</u>	<u>\$1,241,048</u>
Securities lending collateral investment pool	<u>\$ 31,331</u>	<u>\$ 31,331</u>

D. Investments

Article VIII of Montana's Constitution, with supporting statutes, authorizes the Board of Investments (BOI) to manage the State's unified investment program. Long-term investments are administered by the following agencies:

Long-term Investments

Department	Percent Administered
Board of Investments	68.31%
PERA (Public Employee Retirement Administration)	15.03
Board of Housing	11.32
Montana State University/University of Montana	3.93
Other (1)	1.41
Total	<u>100.00%</u>

(1) Other consists of the Commissioner of Higher Education, the Department of Administration, the Department of Natural Resources and Conservation, the Department of Public Health and Human Services, and the Montana State Auditors's Office.

The BOI must employ the "Prudent Expert Rule" in managing the State's investment portfolio. Investments are presented at fair value. Investment fair values for publicly traded securities are determined primarily by reference to market prices supplied to the BOI's custodial bank or trustee. Amortized cost, or carrying value, represents the original cost, adjusted for premium and discount amortization where applicable.

Table 4 – Investments
(in thousands)

	Carrying Amount	Fair Value	Credit Quality Rating	Effective Duration
Primary government				
Corporate (rated) (1)	\$ 96,371	\$ 95,454		
U.S. govt direct/indirect (rated) (1)	66,491	65,750		
U.S. govt mortgage-backed (rated) (1)	2,494	2,484		
Govt securities	28,881	28,567		
MUS Workers Compensation	2,016	1,954		
Other equities	166,889	166,889		
Total	\$ 363,142	\$ 361,098		
Component units/fiduciary funds				
Corporate (rated) (1)	\$ 365,828	\$ 357,517		
U.S. govt direct/indirect (rated) (1)	327,563	320,864		
U.S. govt mortgage-backed (rated) (1)	21,902	21,599		
Govt securities	272,124	274,811		
Other equities	68,486	83,456		
Deferred compensation	241,774	247,944		
Defined contribution	26,541	30,934		
VEBA	484	482		
Investments of MSU component units	124,653	124,653		
Investments of UM component units	142,631	142,631		
Real estate	16,477	16,693		
Mortgages	80,751	79,809		
Total	\$1,689,214	\$1,701,393		
Total investments	\$2,052,356	\$2,062,491		
Securities lending collateral investment pool	\$ 372,706	\$ 372,706	NR	NA

(1) The credit quality rating and duration are included below for the rated investments.

AOF Rated Securities
Credit Quality Rating and Effective Duration as of June 30, 2006
(in thousands)

Security Investment Type	Fair Value	Credit Quality Rating	Effective Duration
Corporate (1)	\$ 386,073	A	3.69
U.S. government direct-backed (1)	62,683	AAA	4.55
U.S. government indirect-backed (1)	620,037	AAA	2.39
Total	\$1,068,793		2.99

(1) These rated securities are reported on both Table 2 – Cash Equivalents and Table 4 – Investments.

The PERS Defined Contribution Retirement Plan and the deferred compensation plan's fixed assets were invested and managed on behalf of the plans by Pacific Investment Management Company (PIMCO) and State Street Bank Kansas City (SSKC). The third party

record keeper, Great West Retirement Services, tracks and reports the daily trading and valuations of all investment options, including the assets held by the individual mutual fund companies. When participants invest in the fixed investment, they are guaranteed a

rate of return. The PERS-DCRP fixed money is invested in a PIMCO mutual fund. The minimum average portfolio quality must be an A rating; the minimum issue quality must be a BB-rating; and the minimum commercial paper quality must be A2/P2. Variable investments are held and managed by a selection of retail and institutional mutual funds, which cover all standard asset classes and categories. VEBA (Voluntary Employee Benefit Association) investments are made in mutual fund equities and mutual fund fixed-income funds.

Investment Risk Disclosures

The investment risk disclosures are described in the following paragraphs and are identified by the specific securities to which they pertain, when applicable.

Credit Risk

Credit risk is defined as the risk that an issuer or other counterparty to an investment will not fulfill its obligation. With the exception of the U.S. government securities, the AOF (All Other Funds) fixed-income instruments have credit risk as measured by major credit rating services. This risk is that the issuer of a fixed-income security may default in making timely principal and interest payments. The Board of Investment's policy requires AOF fixed-income investments, at the time of purchase, to be rated an investment grade as defined by Moody's and/or Standard & Poor's (S&P) rating services. The U.S. government securities are guaranteed directly or indirectly by the U.S. government. Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality. The credit ratings presented in the above table are provided by S&P's rating services. If an S&P rating is not available, a Moody's rating has been used. Credit risk reflects the bond quality rating, by investment type, as of the June 30 report date.

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. As of June 30, 2006, all the fixed-income and other equity securities were registered in the nominee name for the Montana Board of Investments and held in the possession of the board's custodial bank, State Street Bank. The Equity Index, Real Estate, Mortgage and Loan investments are

registered in the name of the Montana Board of Investments. The US Bank Municipal Investors Account, State Street and US Bank repurchase agreements were purchased in the State of Montana Board of Investments name.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. With the exception of one fund, the 20 remaining BOI investment policy statements for various state agencies do not address concentration of credit risk. One fund requires credit risk to be limited to 3 % in any one name except AAA rated issues will be limited to 6%. Investments issued or explicitly guaranteed by the U.S. government and investments by various state agencies are excluded from the concentration of credit risk requirement. As of June 30, 2006, Montana had concentration of credit risk exposure to Federal Home Loan Banks of 6.27% and Federal National Mortgage Association of 9.82%.

This concentration of credit risk includes the rated securities from Table 2 – Cash Equivalents and Table 4 – Investments.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The All Other Funds' investment policies do not formally address interest rate risk. In accordance with GASB Statement 40, the board has selected the effective duration method to disclose interest rate risk.

Corporate asset-backed securities are based on cash flows from principal and interest payments on underlying auto loan receivables, credit card receivables, and other assets. These securities, while sensitive to prepayments due to interest rate changes, have less credit risk than securities not backed by pledged assets.

Interest rate risk is disclosed using effective duration. If a bond investment type is unrated, the quality type is indicated by NR (not rated). Both the credit quality ratings and duration have been calculated excluding cash equivalents. If duration has not been calculated, duration is indicated by NA (not applicable).

Specific Legal and Credit Risk

As of June 30, 2006, Montana was not aware of any specific legal or credit risks regarding any investments.

NOTE 4. DISAGGREGATION OF ACCOUNTS RECEIVABLE AND PAYABLE

A disaggregation of the net receivables and accounts payable (by fund type) as of June 30, 2006, follows (amounts in thousands):

A. Receivables

Receivables	Governmental Funds					
	General Fund	State Special Revenue	Federal Special Revenue	Coal Severance Tax Permanent	Land Grant Permanent	Nonmajor Governmental
Licenses and permits	\$ 6,962	\$ 362	\$ -	\$ -	\$ -	\$ -
Taxes	174,931	60,974	-	4,526	-	1,220
Charges for services/ fines/forfeitures	199	10,664	1,581	-	-	-
Investment income	1,972	5,593	-	3,932	5,468	3,355
Contributions/premiums	-	-	-	-	-	-
Other	6,532	11,969	11,027	-	-	494
Total receivables	190,596	89,562	12,608	8,458	5,468	5,069
Less: allowance for doubtful accounts	(8,335)	(7,264)	(1,365)	(48)	-	-
Receivables, net	\$182,261	\$82,298	\$11,243	\$8,410	\$5,468	\$5,069

Receivables	Proprietary Funds			
	Unemployment Insurance	Economic Development Bonds	Nonmajor Enterprise	Internal Service
Charges for services	\$ -	\$ -	\$16,000	\$ -
Investment income	-	9,305	36	168
Contributions/premiums	8,441	-	3,103	4,133
Other	-	-	290	349
Total receivables	8,441	9,305	19,429	4,650
Less: allowance for doubtful accounts	(5,925)	-	(128)	-
Receivables, net	\$ 2,516	\$9,305	\$19,301	\$4,650

B. Payables

Payables	Governmental Funds					
	General Fund	State Special Revenue	Federal Special Revenue	Coal Severance Tax Permanent	Land Grant Permanent	Nonmajor Governmental
Refunds	\$ 95,742	\$ -	\$ -	\$-	\$ -	\$ -
Tax distributions to other govt	-	48,583				
Vendors/individuals	43,338	50,997	92,500	-	-	1,932
Payroll	13,780	14,609	5,643	-	-	8
Accrued interest	-	-	3	-	5,344	5
Other	557	568	49	-	-	10
Total	\$153,417	\$114,757	\$98,195	\$-	\$5,344	\$1,955

Payables	Proprietary Funds			
	Unemployment Insurance	Economic Development Bonds	Nonmajor Enterprise	Internal Service
Vendors/individuals	\$274	\$ 13	\$5,885	\$6,548
Payroll	-	11	580	2,285
Accrued interest	-	1,153	3	-
Total	\$274	\$1,177	\$6,468	\$8,833

NOTE 5. CAPITAL ASSETS

A. Primary Government

Changes in capital asset balances for the fiscal year ended June 30, 2006, are reflected in the following table (in thousands):

Primary Government

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets, not being depreciated				
Land	\$ 354,857	\$ 37,421	\$ (13,795)	\$ 378,483
Construction work in progress	201,936	118,546	(3,715)	316,767
Other (1)	70,033	81,390	(1)	151,422
Total capital assets, not being depreciated	626,826	237,357	(17,511)	846,672
Capital assets, being depreciated				
Infrastructure	3,265,389	405,083	(252,488)	3,417,984
Land improvements	16,396	4,635	(572)	20,459
Buildings/improvements	366,291	25,256	(5,581)	385,966
Equipment	257,137	26,063	(14,003)	269,197
Other	3,548	118	-	3,666
Total capital assets, being depreciated	3,908,761	461,155	(272,644)	4,097,272
Less: accumulated depreciation for:				
Infrastructure	(1,479,468)	(142,193)	243,826	(1,377,835)
Land improvements	(2,143)	(1,006)	19	(3,130)
Buildings/improvements	(160,838)	(11,932)	4,124	(168,646)
Equipment	(156,947)	(18,240)	8,740	(166,447)
Other	(3,182)	(206)	-	(3,388)
Total accumulated depreciation	(1,802,578)	(173,577)	256,709	(1,719,446)
Total capital assets, being depreciated, net	2,106,183	287,578	(15,935)	2,377,826
Intangible assets (1)	72,649	18,762	(75,332)	16,079
Governmental activity capital assets, net	\$ 2,805,658	\$ 543,696	\$ (108,777)	\$ 3,240,577

(1) Land easements were reclassified from intangible assets to other – nondepreciable assets.

Primary Government (continued)

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities				
Capital assets, not being depreciated				
Land	\$ 800	\$ -	\$ -	\$ 800
Construction work in progress	867	59	(617)	309
Total capital assets, not being depreciated	<u>1,667</u>	<u>59</u>	<u>(617)</u>	<u>1,109</u>
Capital assets, being depreciated				
Infrastructure	884	-	-	884
Land improvements	2,343	-	-	2,343
Buildings/improvements	6,098	1,203	-	7,301
Equipment	10,062	448	(5,333)	5,177
Total capital assets, being depreciated	<u>19,387</u>	<u>1,651</u>	<u>(5,333)</u>	<u>15,705</u>
Less: accumulated depreciation for:				
Infrastructure	(505)	(17)	-	(522)
Land improvements	(131)	(107)	-	(238)
Buildings/improvements	(3,754)	(184)	-	(3,938)
Equipment	(7,655)	(1,092)	5,328	(3,419)
Total accumulated depreciation	<u>(12,045)</u>	<u>(1,400)</u>	<u>5,328</u>	<u>(8,117)</u>
Total capital assets, being depreciated, net	<u>7,342</u>	<u>251</u>	<u>(5)</u>	<u>7,588</u>
Intangible assets	661	-	(248)	413
Business-type activity capital assets, net	<u>\$ 9,670</u>	<u>\$ 310</u>	<u>\$ (870)</u>	<u>\$ 9,110</u>

Depreciation expense was charged to governmental functions as follows (in thousands):

	Amount
General government	\$ 4,634
Public safety/corrections	5,333
Transportation (including depreciation of the highway system maintained by the State)	119,536
Health/social services	2,464
Education/cultural	2,528
Resource/recreation/environment (including depreciation of the State's dams).	3,025
Economic development/assistance	770
Depreciation and amortization on capital assets held by the State's internal service funds is charged to the various functions based on their usage of the assets.	<u>11,091</u>
Total depreciation expense – governmental activities	<u>\$149,381</u>

Depreciation expense was charged to business-type activities as follows (in thousands):

	Amount
Liquor Stores	\$ 97
State Lottery	668
General Government Services	186
Prison Funds	<u>271</u>
Total depreciation expense – business-type activities	<u>\$1,222</u>

B. Discretely Presented Component Units

The following table summarizes net capital assets reported by the discretely presented component units (in thousands). All component units, other than higher education units, are included under the "Other" caption for this schedule:

Discretely Presented Component Units

	Montana State University (MSU)	University of Montana (UM)	Other	Total
Capital assets, not being depreciated				
Land	\$ 6,508	\$ 7,126	\$ -	\$ 13,634
Construction work in progress	15,997	29,692	376	46,065
Capitalized collections	7,827	15,461	-	23,288
Livestock for educational purposes	3,000	-	-	3,000
Total capital assets, not being depreciated	33,332	52,279	376	85,987
Capital assets, being depreciated				
Infrastructure	32,128	-	-	32,128
Land improvements	13,606	12,619	-	26,225
Buildings/improvements	306,565	331,305	-	637,870
Equipment	96,214	46,344	3,954	146,512
Other	59,331	49,323	-	108,654
Total capital assets, being depreciated	507,844	439,591	3,954	951,389
Less: accumulated depreciation	(292,438)	(244,101)	(2,399)	(538,938)
Total capital assets, being depreciated, net	215,406	195,490	1,555	412,451
Intangible assets	493	503	4,725	5,721
Capital assets (net) of MSU component units	8,026	-	-	8,026
Capital assets (net) of UM component units	-	4,949	-	4,949
Discretely presented component units				
Total capital assets, net	\$ 257,257	\$ 253,221	\$ 6,656	\$ 517,134

NOTE 6. RETIREMENT PLANS

Defined Contribution Plans

ORP – Optional Retirement Program – Effective January 1, 1988 through June 30, 1993, eligible employees of the Montana University System (MUS) could elect to participate in the Optional Retirement Program (ORP). The ORP is a defined contribution retirement plan governed by Title 19, chapter 21 of the Montana Code Annotated. The plan is underwritten by the Teachers Insurance and Annuity Association-College Retirement Equities Fund (TIAA-CREF); only faculty and staff with contracts under the authority of the Board of Regents may participate. Those faculty and staff members who did not elect the ORP, participate in the Teachers Retirement System or the Public Employees Retirement System, benefit plans discussed in the next section. Beginning July 1, 1993, membership in the ORP was mandatory for eligible employees new to the MUS. The MUS is the only employer contributing to this plan.

The benefits at retirement depend upon the amount of contributions, amount of investment gains and losses, and the employee life expectancy at retirement. Under the ORP, each employee enters into an individual contract with TIAA-CREF. Individuals are immediately vested with all contributions. Higher education units record employee/employer contribution expenditures in the affected higher education subfund when remitting contributions to the Commissioner of Higher Education. These monies are recorded in the Custodial Accounts Agency Fund. The Commissioner's Office then wire transfers the contributions to TIAA-CREF. The MUS is not liable for asset management or for providing benefits after the required contributions have been made to TIAA-CREF. Required employee contributions were 7.03% of salary; required employer contributions were 4.91% of salary, for a total of 11.9% of salary contributed to the ORP.

	TIAA-CREF <i>(in thousands)</i>
Covered payroll	\$145,294
Total payroll	308,615
Employer contributions	\$ 7,138
Percent of covered payroll	4.91%
Employee contributions	\$ 10,210
Percent of covered payroll	7.03%

PERS-DCRP – Public Employees Retirement System - Defined Contribution Retirement Plan – This plan is a multiple-employer plan created by the 1999 Legislature and is governed by Title 19, Chapters 2 & 3 of the MCA. The plan began receiving contributions on July 1, 2002.

All new hires initially are members of the Public Employees Retirement System - Defined Benefit Retirement Plan (PERS-DBRP). New hires have a 12-month window during which they may choose to transfer to the PERS-DCRP or remain in the current PERS-DBRP. Members may not be members of both the defined contribution and defined benefit retirement plans. The choice is irrevocable. Members of the defined contribution retirement plan will decide how to invest their contributions and a portion of their employer contributions among the offered investment options. The remaining portion of employer contributions will be used to maintain funding of the defined benefit plan, to provide disability benefits, and to fund an employee education program.

The PERS-DCRP has received a long-term loan through the Montana Department of Administration, with the BOI to fund the plan start-up/implementation costs. Authorization for the loan was provided by the Legislature, Chapter 471, Laws of 1999. Five loan draws were taken in the total amount of \$1,498,000. Interest repayments began immediately following the draws. Principal repayments began August 15, 2003, the year following the PERS-DCRP implementation date. The loan was renegotiated as a single sum in fiscal year 2004, to be repaid over a period of 15 years. The interest rate is variable and changes every February, impacting the interest due on the outstanding principal balance.

For information on the repayment schedules on the loan, please see the separately issued PERS-DCRP financial statements.

The PERS requested an inter-entity loan in the amount of \$2,000 from the General Fund to the Municipal Police Officers Retirement System (MPORS) fund at the end of fiscal year 2006. This loan was repaid on August 8, 2006.

Deferred Compensation Plan

457 – Deferred Compensation Plan – The 457 plan was established in 1976 and is governed by Title 19, Chapter 50, MCA, in accordance with Internal Revenue Service Code (IRC) 457. All employees of the State, Montana University System, and contracting political subdivisions are eligible to participate. As of June 30, 2006, the net assets of the plan were \$248,226,353.

The 457 plan is a voluntary, supplemental retirement savings plan. Assets of the 457 plan are required to be held in trusts, custodial accounts, or insurance company contracts for the exclusive benefit of participants and their beneficiaries. Participants elect to defer a portion of their salary, within IRC limits. The deferred salary is not available to employees until separation from

service, retirement, death, or upon an unforeseeable emergency while still employed and must meet IRC-specified criteria. Participant rights are fully vested in their accounts at the time of deposit.

Defined Benefit Plans

A. General

The Public Employees Retirement Board (PERB), a discretely presented component unit of the State of Montana, administers eight defined benefit plans: Public Employees Retirement System (PERS-DBRP), Municipal Police Officers Retirement System (MPORS), Firefighters Unified Retirement System (FURS), Sheriffs Retirement System (SRS), Highway Patrol Officers Retirement System (HPORS), Judges Retirement System (JRS), Game Wardens and Peace Officers Retirement System (GWPORS), and Volunteer Firefighters Compensation Act (VFCA). The PERB prepares a publicly issued comprehensive annual

financial report that includes financial statements and required supplementary information for PERS-DBRP, MPORS, FURS, SRS, HPORS, JRS, GWPORS, VFCA, as well as the two defined contribution plans, PERS-DCRP and 457 plan. Separately issued financial statements can be obtained at 100 North Park, PO Box 200131, Helena, MT 59620-0131.

The financial statements for PERS-DBRP include activity for the defined benefit and the associated education fund. The PERS-DCRP financial statements include activity for the defined contribution and the associated education and disability funds.

The Teachers Retirement System (TRS) is a discretely presented component unit of the State of Montana. The plan prepares a publicly issued financial report that includes financial statements and required supplementary information for TRS. Separately issued financial statements can be obtained at 1500 Sixth Avenue, PO Box 200139, Helena, MT 59620-0139.

A summary of government employers participating in PERS-DBRP, MPORS, FURS, SRS, HPORS, JRS, GWPORS, PERS-DCRP, 457, and TRS by employer type at June 30, 2006, follows:

	Retirement Plan								
	PERS-DBRP	MPORS	FURS	SRS	HPORS	JRS	GWPORS	PERS-DCRP	457 TRS
Employers									
State agencies	36		1	1	1	1	4	29	36 8
Counties	55			56				43	2
Cities/towns	94	22	16					41	
Colleges/universities	5						3	5	6 5
School districts	239							81	2 366
Other	95							30	2
Total	524	22	17	57	1	1	7	229	48 379

B. Plan Descriptions

The State contributes to and/or administers ten plans in two categories: (1) the State as the single employer; and (2) the State as an employer contributor to cost-sharing, multiple-employer plans.

The number of years required to obtain vested rights varies among the plans. All plans provide early retirement options, death benefits, termination, and disability benefits. The post-retirement benefits of each of the plans are included in the tables that follow.

The funding policies for each plan provide for periodic employer and employee contributions (except VFCA) at rates specified by state law. An actuary determines the actuarial implications of the funding requirement in a biennial actuarial valuation. The actuarial method used to determine the implications of the statutory funding level is the entry-age normal-cost method, with

both normal cost and amortization of the unfunded actuarial liability determined as a level percentage of payroll. To maintain a fund on an actuarially sound basis, the rate of contributions should fund the normal cost, in addition to amortizing the unfunded liability over a period not to exceed 30 years.

(1) State as the Single Employer

HPORS – Highway Patrol Officers Retirement System – This plan, established in 1971 and governed by Title 19, Chapters 2 & 6 of the Montana Code Annotated (MCA), provides retirement benefits for all members of the Montana Highway Patrol, including supervisory personnel. Members or their survivors may be eligible for an annual supplemental lump sum payment distributed each September. Many factors must be considered for eligibility, including the number of year the recipient has received a benefit and the recipient's age. This lump-sum payment is funded by the General

Fund at the request of the PERB. The average payment in September 2006 was \$3,139. This enhancement is limited to non-GABA (Guaranteed Annual Benefit Adjustment) members.

JRS – Judges Retirement System – This plan, established in 1967 and governed by Title 19, Chapters 2 & 5 of the MCA, provides retirement benefits for all Montana judges of district courts, justices of the Supreme Court, and the Chief Water Judge.

(2) State as an Employer Contributor to Cost-Sharing, Multiple-Employer Plans

PERS-DBRP – Public Employees Retirement System - Defined Benefit Retirement Plan – This mandatory plan, established in 1945 and governed by Title 19, Chapters 2 & 3 of the MCA, provides retirement benefits to substantially all public employees not covered by another public plan.

Actuarial Status: The Montana Constitution, Article VIII, Section 15, requires public retirement plans be funded on actuarially sound basis. The statutory funding rate is tested in the valuation to determine if it is sufficient to cover the normal cost rate plus an amortization payment of the unfunded actuarial liability, if any, over no more than 30 years. Based on the current actuarial value of assets and all future experience emerging as assumed, the unfunded actuarial liability will not be amortized over the next 30 years. In general, the deterioration of the funded status is primarily due to recognizing prior investment losses due to returns less than the long-term assumed rate of 8% per year. Based on the actuarial assumptions as of June 30, 2006, an additional funding rate of 1.01% of payroll would be required to fund the current and projected benefits from the Defined Benefit plan in accordance with GASB standards and state law.

MPORS – Municipal Police Officers Retirement System – The plan, established in 1974 and governed by Title 19, Chapters 2 & 9 of the MCA, covers all municipal police officers of first and second-class cities covered by the plan. It is a cost-sharing defined benefit plan with a special funding situation.

As of July 1, 2002, eligible members of MPORS have the opportunity to participate in the Deferred Retirement Option Plan (DROP) by filing a one-time irrevocable election with the PERB. The DROP is governed by Title 19, Chapter 9, Part 12, MCA. An eligible member must have completed at least 20 years of membership service. They may elect to participate in the DROP for a minimum of one month and a maximum of five years and may participate in the DROP only once. A participant remains a member of the MPORS, but will not receive membership service or service credit in the plan for the duration of the

member's DROP period. During the participation in the DROP, all mandatory contributions continue to be made to the retirement plan. A monthly benefit is calculated based on salary and years of service to the date of the beginning of the DROP period. The monthly benefit is paid into the DROP account until the end of the DROP participation period. At the end of the DROP period, the participant may receive the balance of the DROP account in a lump-sum payment or in a direct rollover to another eligible plan, as allowed by the IRS. If the participant continues employment after the DROP period ends, they will again accrue membership service, and the DROP account cannot be distributed until employment is formally terminated.

FURS – Firefighters Unified Retirement System – This plan, established in 1981 and governed by Title 19, Chapters 2 & 13 of the MCA, provides retirement benefits for firefighters employed by first and second-class cities and other cities that adopt the plan and to firefighters hired by the Montana Air National Guard on or after October 1, 2001. It is a multiple-employer, cost-sharing defined benefit plan.

SRS – Sheriffs Retirement System – This plan, established in 1974 and governed by Title 19, Chapters 2 & 7 of the MCA, covers State Department of Justice criminal investigators hired after July 1, 1993, and all Montana sheriffs.

Effective July 1, 2005, Senate Bill 370 provided membership for county detention officers in the SRS. All detention officers hired after July 1, 2005, will be in the SRS. Existing detention officers may elect to remain in the PERS or elect to become a member of the SRS.

Actuarial Status: The Montana Constitution, Article VIII, Section 15, requires public retirement plans be funded on actuarially sound basis. The statutory funding rate is tested in the valuation to determine if it is sufficient to cover the normal cost rate plus an amortization payment of the unfunded actuarial liability, if any, over no more than 30 years. Based on the current actuarial value of assets and all future experience emerging as assumed, the unfunded actuarial liability will not be amortized over the next 30 years. In general, the deterioration of the funded status is primarily due to recognizing prior investment losses due to returns less than the long-term assumed rate of 8% per year. Based on the actuarial assumptions as of June 30, 2006, an additional funding rate of 1.84% of payroll would be required to fund the current and projected benefits from the retirement plan in accordance with GASB standards and state law.

GWPORS – Game Wardens & Peace Officers Retirement System – This plan, established in 1963 and governed by Title 19, Chapters 2 & 8 of the MCA,

provides retirement benefits for all persons employed as a game warden, warden supervisory personnel, and state peace officers not eligible to join the SRS, HPORS, or MPORS plans.

Actuarial Status: The Montana Constitution, Article VIII, Section 15, requires public retirement plans be funded on actuarially sound basis. The statutory funding rate is tested in the valuation to determine if it is sufficient to cover the normal cost rate plus an amortization payment of the unfunded actuarial liability, if any, over no more than 30 years. Based on the current actuarial value of assets and all future experience emerging as assumed, the unfunded actuarial liability will not be amortized over the next 30 years. In general, the deterioration of the funded status is primarily due to recognizing prior investment losses due to returns less than the long-term assumed rate of 8% per year. Based on the actuarial assumptions as of June 30, 2006, an additional funding rate of 0.04% of payroll would be required to fund the current and projected benefits from the retirement plan in accordance with GASB standards and state law.

VFCA – Volunteer Firefighters Compensation Act – This compensation program, established in 1965 and governed by Title 19, Chapters 2 and 17 of the MCA, provides pension, disability and survivorship benefits for all volunteer firefighters who are members of qualified volunteer fire companies in unincorporated areas of the state. VFCA also provides limited medical expenses for injuries incurred in the line of duty. VFCA is a plan with a special funding situation.

The 2003 Legislature amended the law so that members of the VFCA can accumulate more than 20 years of

service beginning when they are age 55, if they already have 20 years of service (effective July 1, 2003).

TRS – Teachers Retirement System – This mandatory plan, established in 1937 and governed by Title 19, Chapter 20 of the MCA, provides retirement services to all persons employed as teachers or professional staff of any public elementary or secondary school, or unit of the university system.

Actuarial Status: The Montana Constitution, Article VIII, Section 15, requires public retirement plans be funded on actuarially sound basis. The statutory funding rate is tested in the valuation to determine if it is sufficient to cover the normal cost rate plus an amortization payment of the unfunded actuarial liability, if any, over no more than 30 years. Based on the current actuarial value of assets and all future experience emerging as assumed, the unfunded actuarial liability will not be amortized over the next 30 years. In general, the deterioration of the funded status is primarily due to recognizing prior investment losses due to returns less than the long-term assumed rate of 7.75% per year. The plan's actuary has determined that as of July 1, 2006, the current employer contribution rate of 7.47% plus the General Fund contribution of 0.11% of members' salaries are insufficient to meet the actuarial cost. The unfunded actuarial accrued liability of \$863.1 million is included in the Schedules of Funding Progress.

A brief summary of contribution rates, eligibility and benefits for each retirement plan is provided in the tables on the following three pages.

**Schedule of Contribution Rates
Fiscal Year 2006**

Plan	Member	Employer	State
PERS-DBRP	6.9% [19-3-315, MCA]	6.9% State & University 6.8% Local Governments [19-3-316, MCA]	0.1% of local government payroll – paid from the General Fund [19-3-319, MCA]
MPORS	5.8% - hired on or before 6/30/1975 & not electing GABA [19-9-710(a), MCA] 7.0% - hired after 6/30/1975 & prior to 7/1/1979 & not electing GABA [19-9-710(b), MCA] 8.5% - hired after 6/30/1979 & prior to 7/1/1997 & not electing GABA [19-9-710(c), MCA] 9.0% - hired after 6/30/1997 & members electing GABA [19-9-710(d), MCA]	14.41% [19-9-703, MCA]	29.37% of salaries – paid from the General Fund [19-9-702, MCA]
FURS	9.5% - hired prior to 7/1/1997 & not electing GABA [19-13-601(2)(a), MCA] 10.7% - hired after 6/30/1997 & members electing GABA [19-13-601(2)(b), MCA]	14.36% [19-13-605, MCA]	32.61% of salaries – paid from the General Fund [19-13-604, MCA]
SRS	9.245% [19-7-403, MCA]	9.535% [19-7-404, MCA]	
HPORS	9.0% - hired prior to 7/1/1997 & not electing GABA 9.05% - hired after 6/30/1997 & members electing GABA [19-6-402, MCA]	26.15% [19-6-404(1), MCA] 10.18% of salaries – paid from driver license fees [19-6-404(2), MCA]	
JRS	7.0% [19-5-402, MCA]	25.81% [19-5-404, MCA]	
GWPORS	10.56% [19-8-502, MCA]	9.0% [19-8-504, MCA]	
VFCA			5.0% of fire insurance premiums, paid by the General Fund [19-17-301, MCA]
PERS-DCRP	6.9% [19-3-315, MCA]	6.9% State & University 6.8% Local Governments [19-3-316, MCA]	0.1% of local government payroll – paid from the General Fund [19-3-319, MCA]
TRS	7.15% [19-20-602, MCA]	7.47% [19-20-605, MCA]	0.11% of members' salaries [19-20-604, MCA]

Summary of Eligibility and Benefits

Plan	Member's Highest Average Compensation (HAC)	Years of Service Required and/or Age Eligible for Benefit	Vesting
PERS-DBRP	Highest average compensation during any consecutive 36 months	Service retirement: 30 years, any age; Age 60, 5 years of service; or Age 65, regardless of service Early retirement, actuarially reduced: Age 50, 5 years of service; or Any age, 25 years of service	5 years membership service
MPORS	Hired prior to 7/1/1977 – average monthly compensation of final year of service; hired after 6/30/1977 – final compensation for last consecutive 36 months	20 years, regardless of age; age 50, 5 years of service	5 years membership service
FURS	Hired prior to 7/1/1981 and not electing GABA – highest monthly compensation (HMC); hired after 6/30/1981 and those electing GABA – highest average compensation (HAC) during any consecutive 36 months	20 years, regardless of age; age 50, 5 years of service	5 years membership service
SRS	Highest average compensation during any consecutive 36 months	20 years membership service, regardless of age; age 50, 5 years of service, actuarially reduced	5 years membership service
HPORS	Highest average compensation during any consecutive 36 months	20 years of service, regardless of age; 5 years of membership service, actuarially reduced from age 60	5 years membership service
JRS	Hired prior to 7/1/1997 and non-GABA – monthly compensation at time of retirement; hired after 6/30/1997 or electing GABA – HAC during any consecutive 36 months (relates directly to monthly benefit formula)	Age 60, 5 years of membership service; any age with 5 years of membership service – involuntary termination, actuarially reduced	5 years membership service
GWPORS	Highest average compensation during any consecutive 36 months	Age 50, 20 years of membership service; age 55, 5 years of membership service	5 years membership service
VFCA		Age 55, 20 years of credited service (full benefit); age 60, 10 years of service (partial benefit). As of 4/25/2005 (Senate Bill 197), members may retire with greater than 20 years of service, but not more than 30 years of service.	10 years of service credit
PERS-DCRP		Termination of service	Immediate for member's contributions and attributable income; 5 years for employer's contributions and attributable income
TRS	Final average compensation during any consecutive 36 months	Age 60, 5 years of service, or any age with at least 25 years of service. Vested employees may retire at or after age 50 and receive reduced benefits.	5 years of membership service

Summary of Eligibility and Benefits *(continued)*

Plan	Monthly Benefit Formula	Guaranteed Annual Benefit Adjustment (GABA)	Minimum Benefit Adjustment (Non-GABA)
PERS-DBRP	Less than 25 years of membership service: 1.785% of HAC per year of service credit; 25 years of service or more: 2% of HAC per year of service credit	After the member has completed 12 full months of retirement, the member's benefit increases by a maximum of 3% each January, inclusive of other adjustments to the member's benefit.	
MPORS	2.5% of FAC per year of service credit	After the member has completed 12 full months of retirement, the member's benefit increases by a maximum of 3% each January, inclusive of all other adjustments to the member's benefit.	If hired before 7/1/1997 and member did not elect GABA, the monthly retirement, disability or survivor's benefit may not be less than 1/2 the compensation of a newly confirmed officer in the city that the member was last employed.
FURS	Members hired prior to 7/1/1981 and not electing GABA are entitled to the greater of: 2.5% of HAC per year of service credit; or (1) if less than 20 years of service, 2% of HMC for each year of service; or (2) if more than 20 years of service, 50% of the member's HMC plus 2% of the member's HMC for each year of service credit over 20 years. Members hired after 6/30/1981 and those electing GABA receive 2.5% of HAC per year of service credit.	After the member has completed 12 full months of retirement, the member's benefit increases by a maximum of 3% each January, inclusive of all other adjustments to the member's benefit.	If hired before 7/1/1997 and member did not elect GABA, the monthly retirement, disability or survivor's benefit may not be less than 1/2 the compensation of a newly confirmed firefighter employed by the city that last employed the member (provided the member has at least 10 years of service credit).
SRS	2.5% of HAC per year of service credit	After the member has completed 12 full months of retirement, the member's benefit increases by a maximum of 3% each January, inclusive of all other adjustments to the member's benefit.	
HPORS	2.5% of HAC per year of service	Hired after 7/1/1997, or those electing GABA – after the member has completed 12 full months of retirement, the member's benefit increases by a maximum of 3% each January, inclusive of other adjustments to the member's benefit.	Hired prior to 7/1/1997 – monthly benefits for non-GABA members are increased each July when they fall below a statutorily guaranteed minimum. Any annual increase is limited to 5% over the current benefit and may not exceed 60% of the current base salary of a probationary officer.
JRS	3 1/3% of current salary (non-GABA) or HAC (GABA) per year of service for the first 15 years, plus 1.785% per year for each year after 15 years	Hired after 7/1/1997, or those electing GABA – after the member has completed 12 full months of retirement, the member's benefit increases by a maximum of 3% each January, inclusive of all other benefit adjustments to the members.	Hired prior to 7/1/1997 – current salary is used in the calculation of the monthly benefit each time the Legislature increases salaries for active judges.
GWPORS	2.5% of HAC per year of service credit	After the member has completed 12 full months of retirement, the member's benefit increases by a maximum of 3% each January, inclusive of all other adjustments to the member's benefit.	
VFCA	\$7.50 per year of credited service, maximum \$150; if greater than 20 years of service (but not more than 30 years), maximum \$225		
PERS-DCRP	varies		
TRS	1.6667% of average final compensation (AFC) per year of service		

C. Summary of Significant Accounting Policies

The pension trust funds' financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to each plan are recognized when due and when the employer has made a formal commitment to provide the contributions. Benefits and refund distributions are recognized when due and payable in accordance with the terms of each plan.

D. Method Used to Value Investments

The Montana Board of Investments (BOI) manages the investments for the defined benefit retirement plans. Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Mortgages are valued on the basis of future principal and interest payments and are discounted at prevailing interest rates for similar instruments. The fair value of real estate investments is based on a discounted cash flow. Investments that do not have an established market are reported at estimated fair value. These values are based on market prices supplied to the

BOI by its custodial bank, State Street Bank, and various brokerage services. The retirement plans have no investments with a single issuer whose fair value equals 5% or more of the retirement plans net assets available for benefits.

E. Long-term Contracts for Contributions

The Montana Legislature also enacted a provision of the Employee Protection Act (EPA) (Title 19, Chapter 2, Part 706. MCA), allowing state and university system employees, eligible for a service retirement, whose positions have been eliminated, to have their employer pay a portion of the total cost of purchasing up to three years of "1 for 5" additional service. As of June 30, 2006, 165 employees have taken advantage of the provision.

The employer has up to ten years to complete payment for the service purchases and is charged 8% interest on the unpaid balance. Total retirement incentive contributions received, including interest, during fiscal year 2006 were \$123,784. June 30, 2006, outstanding balances were \$49,261.

NOTE 7. OTHER POSTEMPLOYMENT BENEFITS

In addition to the pension benefits described in Note 6, Retirement Plans, the following postemployment benefits are provided:

The State and the Montana University System (MUS) provide 18 to 36 months optional postemployment health care and dental benefits in accordance with Public Law 99-272, known as the Consolidated Omnibus Budget Reconciliation Act (COBRA), to the following employees and dependents who elect to continue and pay administratively established premiums: (1) employees who are covered by the State Group Benefits Plan at the time they discontinue state employment and (2) spouses or other dependents who lose dependent eligibility. At June 30, 2006, 55 certificate holders were receiving these benefits for the State of Montana, 108 for the Montana University System.

In accordance with MCA 2-18-704, the State also provides optional postemployment health care benefits to the following employees and dependents who elect to continue coverage and pay administratively established premiums: (1) employees and dependents who retire under applicable retirement provisions and (2) surviving dependents of deceased employees. Retirement eligibility criteria differ by retirement plan (See Note 6). Administratively established retiree medical premiums vary between \$155 and \$675 per month depending on the medical plan selected, family coverage, and Medicare eligibility. Administratively established dental premiums vary between \$27.80 and \$45.80, and vision premiums vary between \$8.44 and \$21.94 depending on the coverage selected. The State acts as secondary payor for retired Medicare-eligible claimants. As of June 30, 2006, there were 3,318 retirees covered for health care benefits.

The State reimburses all validated medical claims less member obligations (annual deductibles and co-insurance of the members selected medical plan). Dental claims are reimbursed at 50% to 100% of the allowable charges, depending on the services provided. Vision services are provided at prices ranging from a \$10 copay to a \$120 allowance depending on the services obtained and the network status of the provider. Vision coverage is fully insured; therefore premium contributions reflect the total cost to the State during the year. The State funds claims on a pay-as-you-go basis and, in addition, maintains a claims fluctuation reserve equivalent to three months projected claims and operating costs. During the fiscal year, expenditures of \$21,206,622 were recognized for postemployment health care benefits. Premium contributions received from former employees amounted to \$15,460,535 leaving \$5,746,087 of claims paid in excess of premium revenue received by the State.

In accordance with MCA 2-18-702, the Montana University System provides postretirement health

insurance benefits to eligible employees who receive a retirement benefit from the Teachers Retirement System, Public Employees Retirement System, or an annuity under the Optional Retirement Plan and have been employed by the MUS at least five years, are age 50 or have worked 25 years with the MUS. Spouses, unmarried dependent children, and surviving spouses are also eligible.

Administratively established premiums vary between \$210 and \$603 per month, and are revised annually. The plan provides different coinsurance amounts depending on whether members use preferred, non-preferred, or other hospitals. After an annual \$575 deductible for most non-Medicare-eligible retirees, the MUS plan reimburses 80% of the first \$2,500 in medical claims and 100% thereafter. After a \$400 deductible for Medicare-eligible retirees, the plan reimburses 80% for the first \$1,250 in medical claims and 100% thereafter. There is an optional \$1,500 deductible plan available to retirees with a reduced premium. This plan has a small enrollment (77 enrollees). After the \$1,500 annual deductible, the plan pays 75% of the first \$8,000 and 100% thereafter. The plan automatically reduces claim reimbursement for members eligible for Medicare, even if the member is not enrolled in Medicare. As of June 30, 2006, 1,427 retirees were enrolled in the MUS plan.

Funding for the retiree health plan is on a pay-as-you-go basis. Based on amounts recorded through June 2006, expenditures of \$8,678,927 were recognized for postemployment health care benefits. Of this amount, \$6,248,223 was paid by retirees through premiums, and the balance of \$2,430,704 was paid by the MUS.

As of July 1, 2006, retirees can now choose a managed care option, if available, in their area. The managed care premiums are lower and there are more first dollar benefits. After an in-network deductible of \$300, the plan reimburses 75% for the first \$2,000 and 100% thereafter. The managed care plans have a small enrollment (30 enrollees) for this first year offering to retirees.

For the fiscal year ending June 30, 2007, the State and the MUS will implement GASB Statement 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions. This statement requires the disclosure of the employer liability for retiree medical subsidies and other postemployment benefits. The annual required contribution (ARC) will be equal to an amount required each year to fully fund the liability over 30 years. The estimated ARC for the State and the MUS has been estimated at \$29,892,000 and \$21,477,000, respectively. The amount of the estimated OPEB liability at transition was determined in accordance with the Statement, and has been estimated at \$306,150,000 for the State and \$218,963,000 for the MUS. These estimates were prepared by Buck Consultants.

NOTE 8. RISK MANAGEMENT

There are three primary government public entity risk pools and one claims-servicing pool that are reported within the enterprise fund. These pools include Hail Insurance, the Montana University System (MUS) Group Benefits Plan, the Montana University System Workers Compensation funds, and the Subsequent Injury claims-servicing pool. The two component unit pools include State Compensation Insurance (New Fund) and State Compensation Insurance (Old Fund). Unpaid claims and claim adjustment expenses are estimated based on the ultimate cost of settling the claims including the effects of inflation and other societal/economic factors. The primary government reports its own risk management activity within two internal service funds: Group Employees Comprehensive Medical and Dental Plan and Property and Casualty Insurance Plans. In all of these funds, there are no significant reductions in insurance coverage from the prior year, nor any insurance settlements exceeding insurance coverage for the last three years. These funds use the accrual basis of accounting. By statute, these funds cannot invest in common stock, except for the State Compensation Insurance funds. Investments are recorded at fair value. Premiums and discounts are amortized using the straight-line method over the life of the securities.

A. Public Entity Risk Pools

(1) Hail Insurance – Any Montana producer engaged in growing crops subject to destruction or damage by hail may participate in the Hail Insurance program. The Hail Insurance program issued 2,107 policies during the 2006 growing season. This fund accounts for premium assessments paid by producers for crop acreage insured, investment and interest earnings, administrative costs, and claims paid for hail damage. Depending upon the actuarial soundness of the reserve fund and the damage in a season, producers may receive a premium refund. Anticipated investment income is considered in computing a premium deficiency, of which there is none.

A claim must be submitted to the State Board of Hail Insurance within 14 days of a loss occurrence. The claim must indicate whether the grain is stemming, in the boot, heading out, in the milk, in the stiff dough, ready to bind, or combine. If beans, peas, or other crops are damaged, the growth-stage must also be indicated. Inspection of a crop will occur as promptly as possible after claim receipt. The liability on all insured crops expires after October 1. The insurance only covers loss or damage to growing grain that exceeds 5% destruction by hail.

The fund recorded a liability of \$94,405 based on estimated claims through June 30, 2006. Any crop insurance liability is paid to producers within one year of occurrence; therefore, liabilities are not discounted. The fund has no excess insurance, reinsurance, or annuity contracts.

(2) Montana University System (MUS) Group Benefits Plan – This plan was authorized by the Board of Regents to provide medical, dental, and vision insurance coverage to employees of the Montana University System and the State Bar of Montana, as well as their dependents, retirees, and COBRA members. The MUS Group Benefits Plan is fully self-insured, except for life insurance, long-term disability, and vision insurance. Allegiance Benefit Plan Management is the claims administrator for the self-insured indemnity plan and a managed care plan. New West Health Services, Blue Cross/Blue Shield of Montana, and Peak administers claims for the three other managed care plans. Star Point has a contract for utilization management: the utilization management program consists of hospital pre-authorization and medical necessity review. Premiums are collected from employees through payroll deductions and recorded in the MUS Group Insurance Enterprise Fund. The claims liability is calculated by Buck Consultants and estimated to be \$6,250,000 as of June 30, 2006, based on prior year experience. A liability is reported in the accompanying financial statements for these estimated claims.

(3) Montana University System (MUS) Workers Compensation Program – This fund was formed to provide self-insured workers compensation coverage for employees of the Montana University System. The Montana University System Board of Regents elected to provide workers compensation coverage under Compensation Plan Number One (MCA 39-71-2101) as of July 1, 2003. Prior to that date, the Montana University System obtained its workers compensation coverage through the State Compensation Insurance Fund. The program is self-insured for workers compensation claims to a maximum of \$500,000 per each occurrence. Losses in excess of \$500,000 are covered by reinsurance with a commercial carrier. Employer's liability claims are covered to a maximum of \$1,000,000 above the self-insured amount of \$500,000. During fiscal year 2006, the program ceded \$198,718 in premiums to reinsurers.

Premium rates for all participating employees are based on rates established by the MUS Workers Compensation Program Committee. Premium rates are adjusted periodically based on inflation, claims experience, and other factors. Premiums are recorded as revenue in the MUS Workers Compensation Program in the period for which coverage is provided. Members may be subject to supplemental assessments in the

event of deficiencies. The program considers anticipated investment income in determining if a premium deficiency exists.

The fund recorded a liability of \$4,538,528 for estimated claims at June 30, 2006. The liability is based on the estimated ultimate cost of settling the reported and unreported claims, and claims reserve development including the effects of inflation and other societal and economic factors. Estimated amounts of subrogation and reinsurance recoverable on unpaid claims are deducted from the liability for unpaid claims. Estimated claims liabilities are recomputed periodically based on current review of claims information, experience with similar claims, and other factors. Adjustments to estimated claims liabilities are recorded as an increase or decrease in claims expense in the period the adjustments are made.

(4) Subsequent Injury – This fund provides benefits to workers, certified as disabled at the time of hiring, who are subsequently injured on the job and entitled to benefits under the Workers Compensation or Occupational Disease Act at the time of injury. The liability of the insurer for payment of compensation benefits is limited to 104 weeks of benefits actually paid. This fund will reimburse the insurer for all benefits paid after this 104-week time period.

Workers compensation insurance premium experience modification factors are influenced by the two-year limitation, and employers may experience an insurance premium reduction. Therefore, this fund provides employers with a potential incentive for hiring a person with a certified disability.

This fund makes no provision for insured events of the current year. All Montana insurers are annually assessed a percentage of their paid losses sufficient to cover paid losses reimbursed from the fund in the preceding calendar year and the expenses of administration, less other income. An estimated liability is recorded based on a projected cost analysis (case-by-case) of each injured person with a certified disability. As of June 30, 2006, the amount of this liability was estimated to be \$2,976,711. Since each insurer is responsible for its own claim liabilities, the pool is acting as a claims service and there is no transfer or pooling of risk.

(5) State Compensation Insurance (New Fund) – This fund provides liability coverage to employers for injured employees who are insured under the Workers Compensation and Occupational Disease Acts of Montana and workers compensation claims occurring on or after July 1, 1990, are reported in the New Fund. The New Fund is a self-supporting, competitive State fund, and functions as the insurer of last resort. At June 30, 2006, approximately 28,410 employers were

insured with the New Fund. Anticipated investment income is considered for computing a premium deficiency, and employers must pay premiums to the New Fund within specified time frames.

An actuarial study prepared by Tillinghast-Towers Perrin, as of June 30, 2006, estimated the cost of settling claims that have been reported, but not settled; and claims that have been incurred, but not reported. Because actual claim costs depend on such complex factors as inflation and changes in the law, claim liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claim frequency, and other economic and societal factors.

A provision for inflation is implicit in the calculation of estimated future claim costs because reliance is placed both on actual historical data that reflect past inflation and on other factors that are considered to be appropriate modifiers of past experience. As of June 30, 2006, \$590,688,000 of unpaid claims and claim adjustment expenses were presented at face value. When the New Fund purchases annuity contracts, the claim is settled in full and on a final basis, and all liability of the New Fund is terminated.

Acquisition costs represent costs associated with the acquisition of new insurance contracts or renewal of existing contracts and include agent commissions and expenses incurred in the underwriting process. New Fund acquisition costs are capitalized and amortized ratably over the subsequent year. The amount of capitalized acquisition costs for the fiscal year ended June 30, 2006, was \$569,570. For the fiscal year ended June 30, 2006, \$774,963 of acquisition costs were amortized.

Statute requires the New Fund set premiums at least annually at a level sufficient to insure adequate funding of the insurance program during the period the rates will be in effect. Statute also requires the New Fund to establish a minimum surplus above risk-based capital requirements to secure the New Fund against risks inherent in the business of insurance.

(6) State Compensation Insurance (Old Fund) – The liability and payment of workers compensation claims for incidents occurring before July 1, 1990, are reported in the Old Fund.

An actuarial study prepared by Tillinghast-Towers Perrin, as of June 30, 2006, estimated the cost of settling claims that have been reported, but not settled; and claims that have been incurred, but not reported. At June 30, 2006, \$97,768,808 of unpaid claims and claim adjustment expenses were reported at a net present value of \$73,736,659, discounted at a 5.0% rate.

(7) Changes in Claims Liabilities For the Past Two Years – As indicated above, these funds establish liabilities for both reported and unreported insured events including estimates of future payments of losses and related claim adjustment expenses. The following tables present changes (in thousands) in those aggregate liabilities during the past two years. All information in these tables is presented at face value and has not been discounted.

	<u>Primary Government</u>				<u>MUS Workers Compensation Program</u>	
	<u>Hail Insurance</u>		<u>MUS Group Benefits</u>			
	2006	2005	2006	2005	2006	2005
Unpaid claims and claim adjustment expenses at beginning of year	\$ 191	\$ 95	\$ 4,619	\$ 4,663	\$ 3,138	\$1,622
Incurring claims and claim adjustment expenses:						
provision for insured events of the current year	2,447	1,978	48,163	37,533	2,453	2,366
Increase (decrease) in provision for insured events of prior years	(320)	(285)	1,631	(44)	62	
Total incurred claims and claim adjustment expenses	2,127	1,693	49,794	37,489	2,515	2,366
Payments:						
Claims and claim adjustment expenses attributable to insured events of the current year	(2,033)	(1,502)	(48,163)	(37,533)	(391)	(382)
Claims and claim adjustment expenses attributable to insured events of prior years	(191)	(95)	-	-	(724)	(468)
Total payments	(2,224)	(1,597)	(48,163)	(37,533)	(1,115)	(850)
Total unpaid claims and claim adjust. exp. at end of the year	\$ 94	\$ 191	\$ 6,250	\$ 4,619	\$ 4,538	\$3,138

	<u>Component Units</u>			
	<u>State Compensation Insurance (New Fund)</u>		<u>State Compensation Insurance (Old Fund)</u>	
	2006	2005	2006	2005
Unpaid claims and claim adjustments expenses at beginning of year	\$ 511,557	\$ 452,115	\$104,852	\$108,500
Incurring claims and claim adjustment expenses:				
Provision for insured events of the current year	170,399	149,542		
Increase (decrease) in provision for insured events of prior years	35,439	10,070	3,811	6,691
Total incurred claims and claim adjustment expenses	205,838	159,612	3,811	6,691
Payments:				
Claims and claim adjustment expenses attributable to insured events of the current year	(36,132)	(25,721)		
Claims and claim adjustment expenses attributable to insured events of prior years	(90,575)	(74,449)	(10,894)	(10,339)
Total payments	(126,707)	(100,170)	(10,894)	(10,339)
Total unpaid claims and claim adjust. exp. at end of the year	\$ 590,688	\$ 511,557	\$ 97,769	\$104,852

(8) Risk Management Trend Information – The following tables only present risk management trend information for the State Compensation Insurance (New Fund) and the MUS Workers Compensation Insurance. Both funds have a three to five-year development cycle contemplated by GASB Statement 10. The State Compensation Insurance (Old Fund) does not charge a premium for its services. The Hail Insurance Fund pays claims within a calendar year cycle that parallels the growing season from spring planting to fall harvesting; therefore, it has no three to five-year development cycle. The MUS Group Benefits Fund pays claims within the calendar year, and the plan limits the timing for submission of claims; therefore, it has no three to five-year development cycle. State statute limits the payment of claims and the collection of premiums (and penalties) for the Subsequent Injury Fund from any developmental cycle.

The tables illustrate how the earned revenues (net of reinsurance) of the funds and their investment income compare to related costs of loss (net of loss assumed by reinsurers) and other expenses assumed by the funds as

of the end of the fiscal year (in thousands). Section 3 shows the funds' incurred claims and allocated claim adjustment expense (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred. Section 4 shows the cumulative amounts paid as of the end of successive years for each policy year. Section 6 shows how each policy year's incurred claims increased or decreased as of the end of successive years. This annual re-estimation results from new information received on known claims, reevaluation of existing information on known claims, as well as emergence of new claims not previously known. Section 7 compares the latest re-estimated incurred claims amount to the amount originally established (Section 3) and shows whether this latest estimate of claims cost is greater or less than originally thought. As data for individual policy years mature, the correlation between original estimates and re-estimated amounts is commonly used to evaluate the accuracy of incurred claims currently recognized in less mature policy years. This table will be revised as data for successive policy years develops.

MUS Workers Compensation Program			
	2006	2005	2004
1. Premiums and investment revenue			
Earned	\$3,709	\$3,048	\$2,425
Ceded	(199)	(197)	(151)
Net earned	\$3,510	\$2,851	\$2,274
2. Unallocated expenses including overhead	\$ 264	\$ 280	\$ 227
3. Estimated losses and expenses end of accident year			
Incurred	\$2,453	\$2,366	\$2,174
Ceded	-	-	-
Net incurred	\$2,453	\$2,366	\$2,174
4. Net paid (cumulative) as of:			
End of policy year	\$ 391	\$ 382	\$ 552
One year later		1,002	1,020
Two years later			1,124
5. Re-estimated ceded losses and expenses	\$ -	\$ -	\$ -
6. Re-estimated net incurred losses and expense:			
End of policy year	\$2,453	\$2,366	\$2,174
One year later		2,565	2,174
Two years later			2,037
7. Increase (decrease) in estimated net incurred losses and expenses from end of policy year	\$ -	\$ 199	\$ (137)

	State Compensation Insurance (New Fund)									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
1. Premiums and investment revenue										
Earned	\$105,417	\$90,808	\$82,760	\$91,565	\$116,548	\$129,886	\$166,146	\$174,388	\$222,230	\$170,973
Ceded	(348)	(303)	(260)	(855)	(2,952)	465	(5,654)	(6,563)	(6,788)	(13,618)
Net earned	\$105,069	\$90,505	\$82,500	\$90,710	\$113,596	\$130,351	\$160,492	\$167,825	\$215,442	\$157,355
2. Unallocated expenses including overhead	\$ 12,536	\$14,322	\$18,923	\$22,019	\$ 26,670	\$ 29,393	\$ 32,497	\$ 39,057	\$ 41,543	\$ 45,558
3. Estimated losses and expenses end of accident year										
Incurred	\$ 76,067	\$64,983	\$64,645	\$65,957	\$ 68,267	\$ 81,560	\$110,153	\$120,705	\$134,290	\$155,057
Ceded	-	-	-	-	-	-	-	-	-	-
Net incurred	\$ 76,067	\$64,983	\$64,645	\$65,957	\$ 68,267	\$ 81,560	\$110,153	\$120,705	\$134,290	\$155,057
4. Net paid (cumulative) as of:										
End of policy year	\$ 12,589	\$12,943	\$13,723	\$13,177	\$ 14,140	\$ 16,693	\$ 22,982	\$ 26,123	\$ 25,721	\$ 30,977
One year later	28,451	28,222	29,976	29,218	32,888	38,185	48,861	50,888	57,239	
Two years later	35,706	35,753	39,298	37,555	45,218	52,359	63,773	66,140		
Three years later	39,860	41,004	45,748	43,649	55,248	60,029	72,957			
Four years later	43,105	44,478	49,984	48,322	61,486	64,922				
Five years later	46,478	47,584	54,212	52,027	66,031					
Six years later	48,505	50,188	56,974	54,473						
Seven years later	50,402	52,240	59,935							
Eight years later	52,285	54,004								
Nine years later	54,204									
5. Re-estimated ceded losses and expenses	\$ 6,645	\$ 609	\$ 1,940	\$ -	\$ -	\$ -	\$ 2,901	\$ -	\$ -	\$ -
6. Re-estimated net incurred losses and expense:										
End of policy year	\$ 76,067	\$64,983	\$64,645	\$65,957	\$ 68,267	\$ 81,560	\$110,153	\$120,705	\$134,290	\$155,057
One year later	67,235	64,308	64,348	66,421	71,094	86,799	110,532	112,609	136,235	
Two years later	59,054	60,467	66,660	66,662	81,053	91,241	112,443	124,413		
Three years later	60,811	61,989	69,345	70,302	88,157	94,615	117,245			
Four years later	64,439	64,944	72,435	72,492	92,329	99,755				
Five years later	59,079	67,312	73,710	73,423	95,727					
Six years later	60,528	67,772	75,537	76,048						
Seven years later	60,630	68,601	78,046							
Eight years later	60,774	69,764								
Nine years later	62,446									
7. Increase (decrease) in estimated net incurred losses and expenses from end of policy year	\$ (13,621)	\$ 4,781	\$13,401	\$10,091	\$ 27,460	\$ 18,195	\$ 7,092	\$ 3,708	\$ 1,945	\$ -

B. Entities Other Than Pools

(1) Employee Group Benefits – The medical and dental health plans provided by the State are fully self-insured with the State assuming the risk for claims incurred by employees of the State, elected officials, retirees, former employees covered by COBRA benefits, and their dependents. The State contracts with Blue Cross/Blue Shield, PEAK, New West, and PharmaCare for administration of its self-insured plans. Premiums are collected through payroll deductions, deductions through the Public Employees Retirement Administration, the Legislative Branch, and self-payments, and are recorded as revenue in the Employee Group Benefits Internal Service Fund. At June 30, 2006, estimates for claims liabilities, which include both incurred but not reported claims and grandfathered claims resulting from a 1998 change in period for which the benefit coverage is available, were \$12,516,577 based on a formula provided by Buck Consultants, a consulting actuarial firm, of which \$9,707,398 is estimated to be paid in fiscal year 2007.

(2) Administration Insurance Plans – This self-insurance plan provides coverage for general liability, automobile liability, automobile physical damage, foster care liability, and state-administered foreclosure of housing units. The State self-insures the \$250,000 deductible per occurrence for most property insurance, as well as various deductible amounts for other state property. The State also self-insures against losses of property below \$250,000 of value, with state agencies paying the first \$1,000. Commercial property insurance protects approximately \$3.2 billion of state-owned buildings and contents. The State's property insurance includes separate earthquake and flood protection coverage, with deductibles of \$250,000 for earthquake and \$250,000 for flood per occurrence. Premiums are collected from all state agencies, including component units, and recorded as revenue in the Administration Insurance Internal Service Fund.

An annual actuarial study, prepared by Tillinghast-Towers Perrin Company, and issued for the accident period July 1, 1995 through June 30, 2006, is the basis for estimating the liability for unpaid claims and is supported by historical loss data. The June 30, 2006 estimated claims liability was \$16,215,516.

(3) Changes in Claims Liabilities for the Past Two Years – These funds establish liabilities for both reported and incurred, but not reported, claims. The following table presents changes in the balances of claims liabilities during the past two fiscal years (in thousands):

	Group Employees Benefits		Administration Insurance	
	2006	2005	2006	2005
Amount of claims liabilities at the beginning of each fiscal year	\$ 11,675	\$ 11,195	\$20,328	\$25,558
Incurred claims:				
Provision for insured events of the current year	84,473	76,725	5,636	6,356
Increases (decreases) in provision for insured events of prior years	842	480	(5,017)	(5,535)
Total incurred claims	85,315	77,205	619	821
Payments:				
Claims attributable to insured events of the current year	(71,802)	(70,299)	(1,061)	(819)
Claims attributable to insured events of prior years	(12,671)	(6,426)	(3,670)	(5,232)
Total payments	(84,473)	(76,725)	(4,731)	(6,051)
Total claims liability at end of each fiscal year	\$ 12,517	\$ 11,675	\$16,216	\$20,328

NOTE 9. COMMITMENTS

A. Highway Construction

At June 30, 2006, the Department of Transportation had contractual commitments of approximately \$207.4 million for construction of various highway projects. Funding for these highway projects is to be provided from federal grants and matching state special revenue funds.

B. Capital Construction

At June 30, 2006, the Department of Administration, Architecture & Engineering Division, had commitments of approximately \$42.2 million for capital projects construction. The primary government will fund \$16.5 million of these projects, with the remaining \$25.7 million coming from the state university system.

C. Coal Tax Loan and Mortgage Commitments

The Board of Investments (BOI) makes firm commitments to fund loans from the Coal Severance Tax Permanent Trust Fund. These commitments have expiration dates and may be extended according to the BOI's policies. As of June 30, 2006, the BOI had committed but not yet purchased \$76,503,977 in loans from Montana lenders. In addition to the above commitments, lenders had reserved \$55,143,007 for loans as of June 30, 2006.

The BOI makes reservations to fund mortgages from the Public Employees and Teachers retirement funds. As of June 30, 2006, the BOI had mortgage reservations/commitments totaling \$1,478,884. Effective December 1, 2005, all BOI residential mortgage purchases are processed by the Montana Board of Housing (MBOH). The MBOH does not differentiate between a mortgage reservation and a funding commitment.

D. Proprietary Fund Commitments

Budgets are administratively established in the enterprise and internal service funds, excluding depreciation, compensated absences, and bad debt expense. Appropriations may be committed for goods/services that are not received as of fiscal year-end. These executory commitments are included in unrestricted net assets in the accompanying financial statements as follows (in thousands):

	<u>Amount</u>
<u>Enterprise funds</u>	
Liquor Warehouse	\$ 99
Historical Society Publications	20
Hail Insurance	3
Subtotal-enterprise funds	<u>\$ 122</u>
<u>Internal service funds</u>	
Info Tech Services Division	\$1,212
Buildings and Grounds	620
DEQ Indirect Cost Pool	213
FWP Equipment	41
Admin Supply	24
Employee Group Benefits	4
Payroll Processing	2
Subtotal-internal service funds	<u>\$2,116</u>
Total	<u>\$2,238</u>

NOTE 10. LEASES/INSTALLMENT PURCHASES PAYABLE

The State has entered into various capital and operating leases for land, buildings, equipment, and computer software. Lease contracts are required by law to contain a clause indicating continuation of the lease is subject to funding by the Legislature. It is expected, in the normal course of operations, that most of these leases will be replaced by similar leases.

A. Capital Leases/Installment Purchases

Obligations under capital leases/installment purchases at June 30, 2006, were as follows (in thousands):

Fiscal Year Ending June 30	Primary Government	Discretely Presented Component Units		
	Governmental Activities	Montana State University	University of Montana	Total
2007	\$1,031	\$32	\$284	\$316
2008	567	20	177	197
2009	296	11	154	165
2010	223	7	105	112
2011	320	-	26	26
2012-2016	326	-	-	-
Total minimum pmts	2,763	70	746	816
Less: interest	(304)	(10)	(110)	(120)
Present value of minimum payments	<u>\$2,459</u>	<u>\$60</u>	<u>\$636</u>	<u>\$696</u>

B. Operating Leases

Primary government rental payments for operating leases in fiscal year 2006 totaled \$14,410,000. Future rental payments under operating leases are as follows (in thousands):

Fiscal Year Ending June 30	Primary Government	Discretely Presented Component Units
2007	\$13,834	\$ 1,959
2008	11,191	1,744
2009	10,245	1,518
2010	8,411	1,295
2011	7,574	697
2012-2016	26,050	3,362
2017-2021	8,136	1,339
2022-2026	1,835	-
Total future rental payments	<u>\$87,276</u>	<u>\$11,914</u>

NOTE 11. STATE DEBT

A. General Information

The State has no constitutional limit on its power to issue obligations or incur debt, other than a provision that no debt may be created to cover deficits incurred because appropriations exceeded anticipated revenues. The Board of Examiners (consisting of the Governor, Secretary of State, and Attorney General) is authorized, pursuant to various enabling acts, to issue bonds and notes of the State.

B. Short-term Debt

The Board of Examiners, upon recommendation of the Department of Administration, may issue notes in anticipation of the receipt of taxes and revenues. No notes may be issued to refund outstanding notes. The notes must be redeemed by the end of the fiscal year in which issued. No revenue anticipation notes were issued during fiscal year 2006.

The Board of Investments (BOI) of the State of Montana is authorized to issue Intermediate Term Capital (INTERCAP) bonds under the Municipal Finance Consolidation Act. These bonds may not aggregate more than \$120 million as amended by the 2003 Legislature. The purpose of the bonds is to provide funds for the BOI to make loans to eligible government units. The bonds are limited obligations of the BOI, payable solely from repayments of principal and interest on loans made by the BOI to participating eligible governmental units, investment income under the indenture, and an irrevocable pledge by the BOI. The BOI has no taxing power. Bondholders may elect to have their bonds purchased by the trustee on March 1 of each year until maturity. These issues are considered to be demand bonds and are included in short-term debt. The amounts issued and outstanding at June 30, 2006, were as follows (in thousands):

Series	Amount Issued	Balance June 30, 2006
1994	7,500	\$ 6,745
1995	7,500	6,915
1997	10,000	9,605
1998	12,500	12,200
2000	15,000	14,865
2003	15,000	14,815
2004	18,500	18,475
Total		<u>\$83,620</u>

The following schedule summarizes the activity relating to the demand bonds during the year ended June 30, 2006 (in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance
Demand bonds	\$84,280	\$-	\$660	\$83,620

C. Long-term Debt

The full faith, credit, and taxing powers of the State are pledged for the payment of all general obligation debt. Revenue and mortgage bonds are secured by a pledge from the facilities to which they relate and by certain other revenues, fees, and assets of the State and the various colleges and universities. Primary government bonds and notes outstanding at June 30, 2006, were as follows (in thousands):

Governmental Activities	Series	Amount Issued	Interest Range (%) (1)	Principal Payments		Balance June 30, 2006
				Fiscal Year 2007	In Year of Maturity (2)	
General obligation bonds						
Wastewater Treatment Works						
Revolving Fund (3)	1996C	\$ 2,765	3.75-5.75	\$ 1,765	1,765 (2007)	\$ 1,765
Renewable Resource Program (4)	1997A	2,000	6.8-8.0	435	435 (2007)	435
Long-Range Bldg Program	1997B	12,640	4.5-5.0	905	945 (2008)	1,850
Wastewater Treatment Works						
Revolving Fund (3)	1998A	3,510	3.75-5.15	150	260 (2019)	2,600
Long-Range Bldg Program	1998B	34,545	4.2-5.1	1,555	2,555 (2018)	24,060
Information Technology	1998C	41,390	4.5-5.0	3,905	4,075 (2008)	7,980
Long-Range Bldg Program Refunding	1998D	14,855	4.4-5.0	1,210	1,720 (2015)	12,895
Energy Conservation Program (5)	1998E	1,250	3.6-4.6	140	150 (2008)	290
Renewable Resource Program (4)	1999	1,035	6.0-6.5	65	105 (2015)	730
Long-Range Bldg Program	1999C	16,990	4.0-5.0	720	785 (2009)	2,255
Drinking Water Revolving Fund (3)	1998F	3,065	3.6-4.85	140	230 (2019)	2,335
Drinking Water Revolving Fund (3)	2000A	2,990	4.25-5.6	110	240 (2021)	2,500
Water Pollution Control Revolving						
Fund (3)	2000B	3,325	4.25-5.6	125	270 (2021)	2,785
Long-Range Bldg Program	2000C	17,195	5.0-5.55	650	800 (2011)	3,615
Long-Range Bldg Program	2001B	11,430	4.1-5.75	435	830 (2021)	9,060
Information Technology	2001C	1,600	3.85-4.2	155	185 (2011)	850
Energy Conservation Program (5)	2001D	1,250	3.85-4.2	120	145 (2011)	660
Renewable Resource Program (4)	2001E	1,040	5.2-6.8	55	105 (2017)	845
Drinking Water Revolving Fund (3)	2001G	3,190	4.0-5.0	125	235 (2022)	2,750
Water Pollution Control Revolving						
Fund (3)	2001H	2,690	4.0-5.0	105	200 (2022)	2,315
Long-Range Bldg Program	2002B	10,475	3.35-4.7	430	730 (2023)	9,290
Hard Rock Mining Reclamation	2002C	2,500	3.5-4.7	85	200 (2023)	2,270
Long-Range Bldg Program Refunding	2002D	15,805	2.5-3.7	1,325	1,685 (2014)	11,920
Long-Range Bldg Program	2003A	9,730	2.37-4.0	405	655 (2024)	9,010
Energy Conservation Program (5)	2003B	1,250	2.0-3.0	115	145 (2014)	1,030
Renewable Resource Program						
Refunding (4)	2003C	1,970	1.45-5.25	255	90 (2019)	1,120
Water Pollution Control Revolving						
Fund (3)	2003D	2,730	2.0-3.1	160	190 (2014)	1,385
Drinking Water Revolving Fund (3)	2003E	1,675	2.0-3.1	95	115 (2014)	840
Long-Range Bldg Program Refunding	2003G	26,610	2.0-5.0	2,000	2,310 (2017)	22,535
Information Technology Refunding	2003H	8,725	2.0-4.0	2,015	2,225 (2010)	8,470
Water Pollution Control Revolving						
Fund (3)	2004A	2,665	2.0-3.8	150	230 (2020)	2,540
Long-Range Bldg Program	2004B	3,125	3.0-4.75	160	170 (2025)	2,995
Long-Range Bldg Program Refunding	2005A	14,945	3.0-5.25	35	1,205 (2019)	14,945
Long-Range Bldg Program	2005B	1,670	3.25-4.3	45	120 (2026)	1,670
Energy Conservation Program (5)	2005C	2,500	3.25-4.0	200	290 (2016)	2,500
CERCLA Program (6)	2005D	2,000	3.25-4.3	55	140 (2026)	2,000
Drinking Water Revolving Fund (3)	2005F	3,875	4.0-4.75	160	350 (2021)	3,875
Water Pollution Control Revolving						
Fund (3)	2005G	2,110	4.0-4.75	90	190 (2021)	2,110
Long-Range Bldg Program Refunding	2005H	10,055	3.0-5.0	45	1,300 (2020)	9,935
Long-Range Bldg Program	2006A	31,350	4.0-5.0	-	1,930 (2027)	31,350
Energy Conservation Program (5)	2006B	3,750	4.0-6.0		330 (2022)	3,750
CERCLA Program (6)	2006C	1,000	4.0		120 (2017)	1,000
Renewable Resource Program (4)	2006D	950	5.6-6.0		90 (2022)	950
Total general obligation bonds		\$340,220		\$20,695		\$230,065

Governmental Activities	Series	Amount Issued	Interest Range (%) (1)	Principal Payments		Balance June 30, 2006
				Fiscal Year 2007	In Year of Maturity (2)	
Special revenue bonds						
State Hospital Project (7)	1997	\$ 25,915	4.0-5.05	\$ 880	1,820 (2022)	\$ 20,710
Renewable Resource Program (8)	1997A	1,205	6.0-7.3	50	110 (2018)	905
Renewable Resource Program (8)	1997B	2,660	3.75-5.37	115	210 (2018)	1,910
Renewable Resource Program (8)	2001A	420	3.65-5.59	15	30 (2021)	345
Renewable Resource Program (8)	2001B	1,750	5.2-7.1	60	150 (2021)	1,495
Renewable Resource Program Refunding (8)	2001C	12,155	2.55-4.3	-	790 (2013)	3,605
Broadwater Power Proj Refunding (8)	2001D	21,450	2.25-4.7	1,160	1,795 (2018)	17,245
Renewable Resource Program (8)	2001E	885	2.1-4.85	35	65 (2022)	755
Renewable Resource Program (8)	2001F	900	3.3-6.2	30	75 (2022)	790
Developmental Center Project Refunding (7)	2003	11,510	3.0-5.0	585	970 (2019)	9,855
Renewable Resource Program (8)	2003A	3,000	1.05-4.05	115	215 (2024)	2,780
Renewable Resource Program Refunding (8)	2004A	5,070	2.15-2.95	1,290	905 (2009)	3,130
Renewable Resource Program (8)	2004B	430	4.45-5.45	20	40 (2020)	410
U.S. Highway 93 GARVEES (9)	2005	122,795	3.65-5.19	6,130	11,315 (2020)	117,835
Total special revenue bonds		<u>\$210,145</u>		<u>\$10,485</u>		<u>\$181,770</u>
Notes payable						
Water Conservation (Little Dry Project) (10)		\$ 50	5.0	\$ 2	1 (2012)	\$ 14
Water Conservation (Petrolia Project) (10)		50	5.0	2	2 (2016)	22
Middle Creek Dam Project (11)		3,272	8.125	49	208 (2034)	2,791
Tongue River Dam Project (12)		11,300	-	290	290 (2038)	9,272
Total notes payable		<u>\$ 14,672</u>		<u>\$ 343</u>		<u>\$ 12,099</u>
Subtotal governmental activities, before deferred balances						423,934
Deferred amount on refunding						(5,709)
Unamortized discount						(145)
Unamortized premium						10,458
Total governmental activities		<u>\$565,037</u>		<u>\$31,523</u>		<u>\$428,538</u>
Business-type Activities						
Bonds/notes payable						
<u>Economic Development Bonds (13)</u>						
Municipal Finance Consolidation Act Bonds (Irrigation Program) (14)	1988	\$ 4,976	6.60-7.75	\$ 40	70 (2014)	\$ 430
Conservation Reserve Enhancement Program (CRP Bonds) (15)		3,028	6.0-7.50	898	108 (2011)	2,656
Subtotal economic dev bonds		<u>8,004</u>		<u>938</u>		<u>3,086</u>
MUS Workers Compensation Bonds Payable		2,050	2.8	420	430 (2008)	850
Total business-type activities		<u>\$ 10,054</u>		<u>\$ 1,358</u>		<u>\$ 3,936</u>

(1) The interest range is over the life of the obligation.

(2) Year of maturity refers to fiscal year.

(3) These bonds provide matching funds to enable the State to obtain capitalization grants from the U.S Environmental Protection Agency for water system development loans to state political subdivisions.

(4) The general obligation Renewable Resource Program Bonds are secured additionally by a pledge of, and payable from, certain coal severance taxes. The bonds are also secured by a pledge of loan repayments from loans made from the bond proceeds.

(5) Bonds issued for financing the design, construction, and installation of energy conservation projects at various state buildings.

- (6) The CERCLA (Comprehensive Environmental Response, Compensation, and Liability Act) Program Bonds were issued for the purpose of financing the costs of State of Montana participation in the remedial actions under Section 104 of the CERCLA 42 United States Code Sections 9601-9657, and State of Montana costs for maintenance of sites under CERCLA. The CERCLA Bonds are secured additionally by a pledge of monies received by the State as cost recovery payments and revenues derived from the resource indemnity and groundwater assessment tax in the event there are not sufficient cost recovery payments.
- (7) Facility Finance Authority loan to the Department of Public Health and Human Services for the Montana Developmental Center Project and the Montana State Hospital Project.
- (8) Issued by the Department of Natural Resources and Conservation and backed by a pledge of coal severance taxes and project revenues.
- (9) The U.S. Highway 93 GARVEES (Grant Anticipation Revenue Vehicles) Bonds were issued for the purpose of improving a 44.8-mile stretch of U.S. Highway 93. Repayment of the bonds is secured by a pledge of certain federal aid revenues.
- (10) Loans obtained from Farmers Home Administration for the purpose of acquiring an irrigation (pumping) system for water distribution in the vicinity of Sidney, Montana (Little Dry Project) and to rehabilitate the Petrolia Reservoir and Canal in the vicinity of Winnett, Montana (Petrolia Project). A portion of the revenues generated by the facilities is pledged for repayment of the loans. In the fiscal year 2004 CAFR, the Little Dry Project Loan was incorrectly listed as a special revenue bond and the Petrolia Project Loan was incorrectly excluded from the long-term debt reported.
- (11) U.S. Bureau of Reclamation loan to Montana Department of Natural Resources & Conservation. The outstanding balance includes \$220,927 of interest owed.
- (12) Northern Cheyenne Tribe loan to the Montana Department of Natural Resources & Conservation. The loan will not accrue interest and will be repaid over 39 years. Loan repayment is secured by the issuance of a coal severance tax bond to the tribe.
- (13) Economic Development Bonds & Municipal Finance Consolidation Act Bonds – This program is directed by the Board of Investments, which is attached to the Department of Commerce for administrative purposes. The program assists Montana's small businesses and local governments in obtaining low-cost financing.
- (14) These bonds were issued to obtain funds for the Board of Investments, State of Montana, to purchase the refunding bonds of participating Irrigation Districts for the purpose of prepaying the U.S. Department of Interior, Bureau of Reclamation Projects Loans. The Irrigation Bonds, and the interest thereon, are payable solely from the collection of a special tax or assessment, which is a lien against real property in the Irrigation District. The Irrigation Bonds are limited obligations of the Board of Investments, due to an irrevocable pledge to lend money for deposit by the trustee of the Irrigation District Pooled Loan Program Reserve Account E in an amount equal to any deficiencies therein, on any payment date. The indenture does not permit the issuance of additional bonds.
- (15) The Conservation Reserve Enhancement Program is funded by the Montana Trust Funds Bond Pool.

D. Debt Service Requirements

Primary government debt service requirements at June 30, 2006, were as follows (in thousands):

Governmental Activities

Year Ended June 30	General Obligation Bonds		Special Revenue Bonds		Notes Payable	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$ 20,695	\$ 8,647	\$ 10,485	\$ 8,569	\$ 343	\$ 46
2008	20,285	8,561	10,500	8,181	345	45
2009	16,400	7,802	11,575	7,696	347	44
2010	16,970	7,154	11,120	7,194	349	43
2011	14,960	6,539	11,675	6,693	351	42
2012-2016	76,195	23,051	64,550	24,860	1,799	193
2017-2021	47,760	8,412	59,290	8,054	1,893	160
2022-2026	14,870	1,883	2,575	133	1,995	121
2027-2031	1,930	45	-	-	2,127	72
2032-2036	-	-	-	-	1,970	14
2037-2041	-	-	-	-	580	-
Total	\$230,065	\$72,094	\$181,770	\$71,380	\$12,099	\$780

Business-type Activities

Year Ended June 30	Economic Development Bonds		MUS Workers Compensation Bonds	
	Principal	Interest	Principal	Interest
2007	\$ 938	\$197	\$420	\$24
2008	977	138	430	12
2009	533	76	-	-
2010	280	42	-	-
2011	163	24	-	-
2012-2016	195	24	-	-
Total	\$3,086	\$501	\$850	\$36

Debt service requirements of discretely presented component units at June 30, 2006, were as follows (in thousands):

Year Ended June 30	Housing Authority		Montana State University		University of Montana	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$ 10,650	\$ 39,975	\$ 4,292	\$ 4,895	\$ 5,492	\$ 7,038
2008	12,430	39,620	3,793	5,959	6,033	7,082
2009	13,725	39,094	3,542	6,133	5,919	6,884
2010	14,020	38,510	3,788	6,121	5,790	6,667
2011	14,765	37,883	3,669	6,097	5,619	6,431
2011-2016	89,108	178,175	27,047	21,438	31,873	28,263
2017-2021	112,175	154,295	34,650	13,148	39,715	19,901
2022-2026	151,155	121,333	19,235	6,905	40,990	8,263
2027-2031	189,185	76,593	11,245	3,918	10,690	1,829
2032-2036	154,075	29,019	12,600	1,460	2,140	150
2037-2041	29,900	4,644	-	-	-	-
2042-2046	6,665	419	-	-	-	-
Total	\$797,853	\$759,560	\$123,861	\$76,074	\$154,261	\$92,508

E. Summary of Changes in Long-term Liabilities Payable

Primary government long-term liability activity for the year ended June 30, 2006, was as follows (in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year	Amounts Due In More Than One Year
Governmental activities						
Bonds/notes payable						
General obligation bonds	\$213,195	\$ 37,050	\$ 20,180	\$230,065	\$20,695	\$209,370
Special revenue bonds	192,775	-	11,005	181,770	10,485	171,285
Notes payable	12,439	-	340	12,099	343	11,756
	418,409	37,050	31,525	423,934	31,523	392,411
Deferred amount on refunding	(6,322)	-	(613)	(5,709)	-	(5,709)
Unamortized discount	(158)	-	(13)	(145)	-	(145)
Unamortized premium	9,680	1,126	348	10,458	-	10,458
Total bonds/notes payable	421,609	38,176	31,247	428,538	31,523	397,015
Other liabilities						
Lease/installment purchase payable	2,705	881	1,127	2,459	879	1,580
Compensated absences payable (1)	73,403	48,619	42,897	79,125	42,891	36,234
Early retirement benefits payable (1)	54	-	5	49	6	43
Arbitrage rebate tax payable (1)	53	21	-	74	-	74
Estimated insurance claims (1)	32,003	85,934	89,204	28,733	12,665	16,068
Total other liabilities	108,218	135,455	133,233	110,440	56,441	53,999
Total governmental activities						
Long-term liabilities	\$529,827	\$173,631	\$164,480	\$538,978	\$87,964	\$451,014
Business-type activities						
Bonds/notes payable						
Economic Development Bonds	\$ 3,908	\$ 1,103	\$ 1,925	\$ 3,086	\$ 938	\$ 2,148
MUS Workers Compensation	1,260	-	410	850	420	430
Total bonds/notes payable	5,168	1,103	2,335	3,936	1,358	2,578
Other liabilities						
Compensated absences payable	1,145	693	609	1,229	607	622
Arbitrage rebate tax payable	114	22	7	129	35	94
Estimated insurance claims	10,613	54,748	51,502	13,859	7,387	6,472
Total other liabilities	11,872	55,463	52,118	15,217	8,029	7,188
Total business-type activities						
Long-term liabilities	\$ 17,040	\$ 56,566	\$ 54,453	\$ 19,153	\$ 9,387	\$ 9,766

- (1) The compensated absences liability attributable to the governmental activities will be liquidated by several of the governmental and internal service funds. The early retirement benefits payable will be liquidated by the general, state special revenue, and federal special revenue funds. The arbitrage rebate tax payable will be liquidated by debt service funds. The Employee Group Benefits and Administration Insurance internal service funds will liquidate the estimated insurance claims liability.

Long-term liability activity of discretely presented component units for the year ended June 30, 2006, was as follows (in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year	Amounts Due In More Than One Year
Discretely presented component units						
Bonds/notes payable						
Housing Authority	\$ 765,214	\$154,450	\$116,529	\$ 803,135	\$ 10,650	\$ 792,485
Montana State University (MSU)	107,550	26,150	4,463	129,237	4,292	124,945
University of Montana (UM)	136,806	31,431	16,638	151,599	5,492	146,107
Total bonds/notes payable	1,009,570	212,031	137,630	1,083,971	20,434	1,063,537
Other liabilities						
Lease/installment purch pay	540	498	342	696	261	435
Compensated absences pay	44,757	24,385	22,192	46,950	21,077	25,873
Arbitrage rebate tax payable	1,262	300	421	1,141	314	827
Estimated insurance claims	590,666	205,837	132,079	664,424	137,070	527,354
Due to federal government	30,606	429	-	31,035	-	31,035
Total other liabilities	667,831	231,449	155,034	744,246	158,722	585,524
	<u>\$1,677,401</u>	<u>\$443,480</u>	<u>\$292,664</u>	<u>\$1,828,217</u>	<u>\$179,156</u>	<u>\$1,649,061</u>
Long-term liabilities of MSU component units					448	1,130
Long-term liabilities of UM component units					469	245
Total discretely presented component units						
Long-term liabilities					<u>\$180,073</u>	<u>\$1,650,436</u>

F. Refunded and Early Retired Debt

Primary Government

Pre-payments

During fiscal year 2006, the Department of Natural Resources and Conservation (DNRC) used current available resources to make the following pre-payments on general obligation bonds: \$440,000 of Series 1997A Renewable Resource Program, \$1,045,000 of Series 2003D Water Pollution Control Revolving Fund Program, and \$650,000 of Series 2003E Drinking Water Revolving Fund Program.

DNRC also used current available resources to make a \$500,000 pre-payment of special revenue bond Series 2004A Renewable Resource Program Refunding.

Defeased Debt Outstanding

The State of Montana has defeased certain general obligation and special revenue bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the financial statements. At June 30, 2006, \$58,245,000 of bonds outstanding are considered defeased.

Discretely Presented Component Units

Current Refundings

The Housing Authority, on November 16, 2005, issued Series 2005RA Single Family Mortgage Bonds in the

amount of \$30,280,000. \$29,120,000 of the proceeds were used for a replacement refunding of the Series 1995B Bonds on December 1, 2005. The refunding resulted in a reduction of debt service to maturity of \$3,328,826 and an economic gain of \$6,274,029.

Defeased Debt Outstanding

Montana State University and the University of Montana have defeased certain bond issues by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the financial statements. At June 30, 2006, \$3,415,000 and \$54,277,074 of bonds outstanding are considered defeased for Montana State University and the University of Montana, respectively.

G. No-Commitment Debt

Information is presented below for financing authorities participating in debt issues. The State has no obligation for this debt. Accordingly, these bonds and notes are not reflected in the accompanying financial statements.

Primary Government

Montana Board of Investments (BOI)

Under the Economic Development Act, the BOI is authorized to issue industrial revenue bonds to finance projects for qualifying borrowers. Assets and revenues

of the borrower are pledged to repay the bonds. At June 30, 2006, industrial revenue bonds outstanding aggregated \$200.5 million.

The BOI is also authorized to issue Qualified Zone Academy Bonds (QZAB), under the Municipal Finance Consolidation Act. The revenues, and in some cases, the taxing power of the borrower are pledged to repay the bonds. At June 30, 2006, QZAB debt outstanding aggregated \$5.8 million.

Neither the industrial revenue bonds, nor the QZAB debt issued by the BOI constitutes a debt, liability, obligation, or pledge of faith and credit of the State of Montana.

Beginning Farm Loan Program

The Montana Department of Agriculture is authorized to request issuance of bonds by the BOI to finance projects for beginning farmers within the State, if it appears, after a properly noticed public hearing, that the project is in the public interest of the State. These non-recourse, industrial development revenue bonds do not constitute a debt, liability, or obligation of the State of Montana. The amount issued and outstanding at June 30, 2006, was as follows: Hershberger Project – issued \$129,412, outstanding \$118,844; Young Project – issued \$223,300, outstanding \$209,051.

Discretely Presented Component Units

Facility Finance Authority (FFA)

The FFA is authorized to issue bonds and notes to finance projects for qualifying health care and other community-based service providers. The revenue bonds are payable solely from loan repayments to be made by eligible facilities pursuant to loan agreements, and further, from the funds created by the indentures and investment earnings thereon. The notes are payable solely from loan repayments pursuant to loan agreements. The revenue bonds and notes payable issued by the FFA do not constitute a debt, liability, obligation, or pledge of faith and credit of the State of Montana. At June 30, 2006, revenue bonds outstanding aggregated \$643 million, and notes payable outstanding aggregated \$8 million.

The BOI and the FFA have entered into a capital reserve account agreement for certain bond issues. See Note 16.C. (miscellaneous contingencies) for more information.

Housing Authority (HA)

The HA is authorized to issue bonds and make mortgage loans in order to finance housing which will provide decent, safe, and sanitary housing for persons and families of lower income in the State of Montana. The bonds are special, limited obligations, payable solely from pledged revenues and assets, not general obligations of the HA. The bonds issued by the HA do not constitute a debt, liability, obligation, or pledge of faith and credit of the State of Montana. At June 30, 2006, bonds outstanding aggregated \$3 million.

NOTE 12. INTERFUND BALANCES AND TRANSFERS

A. Balances Due From/To Other Funds

Balances due from/to other funds arise when there is a time lag between the dates that reimbursable expenditures and interfund services provided/used are recorded in the accounting system, and the dates on which payments are made. Balances also arise when there is a time lag between the dates that transfers between funds are recorded, and the dates on which payments are made. Balances due from/to other funds also includes the current portion of balances related to amounts loaned by the Economic Development Bonds Fund to other funds, under the Board of Investments INTERCAP loan program. Balances due from/to other funds are expected to be repaid within one year from the date of the financial statements.

Balances due from/to other funds at June 30, 2006, consisted of the following (in thousands):

	Due To Other Funds					
	Coal Severance Tax Permanent	Economic Development Bonds	Federal Special Revenue	General Fund	Internal Service Funds	Land Grant Permanent
Due From Other Funds						
Economic Development Bonds	\$ -	\$ -	\$ -	\$ -	\$2,320	\$ -
Federal Special Revenue	-	-	-	137	5	-
General Fund	6,070	1	1,471	-	176	-
Internal Service Funds	33	3	1,185	1,884	667	-
Nonmajor Enterprise Funds	-	-	55	138	12	-
Nonmajor Governmental Funds	-	-	7	2	9	-
State Special Revenue	141	-	1,053	4,799	109	3,621
Total	\$6,244	\$4	\$3,771	\$6,960	\$3,298	\$3,621

	Nonmajor Enterprise Funds	Nonmajor Governmental Funds	State Special Revenue	Total
Due From Other Funds (continued)				
Economic Development Bonds	\$ -	\$ -	\$ 1,864	\$4,184
Federal Special Revenue	-	-	662	804
General Fund	12,627	646	42,015	63,006
Internal Service Funds	176	3	2,121	6,072
Nonmajor Enterprise Funds	-	-	34	239
Nonmajor Governmental Funds	-	-	76	94
State Special Revenue	46	1,360	-	11,129
Total	\$12,849	\$2,009	\$46,772	\$85,528

B. Interfund Loans Receivable/Payable

Montana statutes include a provision for interfund loans when the expenditure of an appropriation is necessary and the cash balance in the account from which the appropriation was made is insufficient to pay the expenditure. Interfund loans receivable/payable are expected to be repaid within one year from the date of the financial statements.

Interfund loans receivable/payable at June 30, 2006, consisted of the following (in thousands):

	Interfund Loans Payable					Total
	Federal Special Revenue	Internal Service Funds	Nonmajor Enterprise Funds	Nonmajor Governmental Funds	State Special Revenue	
Interfund Loans Receivable						
Federal Special Revenue	\$ -	\$ 302	\$ -	\$ -	\$ 604	\$ 906
General Fund	18,268	3,300	-	1,361	6,115	29,044
Internal Service Funds	74	-	225	-	10	309
Nonmajor Enterprise Funds	4	-	-	-	-	4
State Special Revenue	20,889	2,000	33	-	-	22,922
Total	\$39,235	\$5,602	\$258	\$1,361	\$6,729	\$53,185

C. Advances To/From Other Funds

Advances to/from other funds represents the portion of interfund loans that are not expected to be repaid within one year from the date of the financial statements. Advances to/from other funds also includes the noncurrent portion of balances related to amounts loaned by the Economic Development Bonds Fund to other funds, under the Board of Investments INTERCAP loan program.

Advances to/from other funds at June 30, 2006, consisted of the following (in thousands):

	Advances from Other Funds					Total
	Federal Special Revenue	Internal Service Funds	Nonmajor Governmental Funds	Pension (And Other Employee Benefit) Trust Funds	State Special Revenue	
Advances to Other Funds						
Coal Severance Tax Permanent	\$ -	\$ -	\$ -	\$-	\$33,477	\$33,477
Economic Development Bonds	-	4,452	-	-	11,679	16,131
General Fund	9	-	-	-	60	69
Nonmajor Enterprise Funds	75	-	-	-	-	75
Nonmajor Governmental Funds	-	-	-	-	3,110	3,110
State Special Revenue	1,668	-	12,701	-	-	14,369
Total	\$1,752	\$4,452	\$12,701	\$-	\$48,326	\$67,231

Additional detail for certain advance balances at June 30, 2006, follows (in thousands):

Advances from the Economic Development Bonds Fund under the INTERCAP Loan Program		Advances from the Coal Severance Tax Permanent Fund	
Department	Balance	Department	Balance
Environmental Quality	\$ 664	Justice	\$ 2,112
Justice	11,015	Natural Resources and Conservation	31,365
Transportation	4,453	Total	\$33,477
Total	\$16,132		

D. Interfund Transfers

Routine transfers between funds are recorded to: (1) transfer revenues from the fund legally required to receive the revenue to the fund authorized to expend the revenue, (2) transfer resources from the General Fund and special revenue funds to debt service funds to support principal and interest payments, (3) transfer resources from enterprise funds to the General Fund to finance general government expenditures, and (4) provide operating subsidies.

For the fiscal year 2006, there was a transfer transaction where one side was reported on the fund financial statements and the other side was reflected on the entitywide financial statements. This occurred because modified accrual and full accrual funds transferred capital assets or long-term liabilities between each other. This caused the transfers to be unbalanced on the fund financial statements by \$25,081 in the nonmajor enterprise fund transfers out category; however, the transfers were balanced on the entitywide statements.

Interfund transfers for the year ended June 30, 2006, consisted of the following (in thousands):

	Transfers In					
	Coal Severance Tax Permanent	Federal Special Revenue	General Fund	Internal Service Funds	Nonmajor Enterprise Funds	Nonmajor Governmental Funds
Transfers Out						
Coal Severance Tax Permanent	\$ -	\$ -	\$31,106	\$ -	\$ -	\$ 417
Federal Special Revenue	-	-	-	28	-	14,909
General Fund	-	3	-	824	51	32,253
Internal Service Funds	-	-	48	382	-	-
Land Grant Permanent	-	-	-	-	-	1,590
Nonmajor Enterprise Funds	-	-	29,887	-	-	-
Nonmajor Governmental Funds	1,150	-	-	500	-	3,007
State Special Revenue	2,256	1,284	6,614	596	27	11,568
Unemployment Insurance	-	558	-	-	-	-
Total	\$3,406	\$1,845	\$67,655	\$2,330	\$78	\$63,744

	Pension (And Other Employee Benefit) Trust Funds	State Special Revenue	Total
Transfers Out (continued)			
Coal Severance Tax Permanent	\$ -	\$ 9,234	\$ 40,757
Federal Special Revenue	-	15,757	30,694
General Fund	-	17,597	50,728
Internal Service Funds	232	-	662
Land Grant Permanent	-	91,973	93,563
Nonmajor Enterprise Funds	-	4,416	34,303
Nonmajor Governmental Funds	-	16,261	20,918
State Special Revenue	-	242	22,587
Unemployment Insurance	-	-	558
Total	\$232	\$155,480	\$294,770

NOTE 13. FUND DEFICITS

The following funds have a deficit fund balance/net assets position at June 30, 2006, (in thousands):

Fund Type/Fund	Deficit
<u>Enterprise funds</u>	
Subsequent Injury	\$(1,442)
State Nursery	\$ (12)
<u>Internal service funds</u>	
Justice Legal Services	\$ (40)

NOTE 14. RESERVED FUND BALANCES

Special Revenue Funds – The State and Federal Special Revenue Funds reserved fund balances are for the following purposes (in thousands):

Fund Type/Purpose	Amount
<u>State Special Revenue funds</u>	
General Government	\$ 32,970
Public Safety/Corrections	184,340
Transportation	119,235
Health/Social Services	52,153
Education/Cultural	5,725
Resource/Recreation/Environment	289,746
Economic Development/Assistance	39,992
Total state special revenue funds	<u>\$724,161</u>
<u>Federal Special Revenue funds</u>	
General Government	\$ 7,107
Public Safety/Corrections	292
Health/Social Services	2,451
Education/Cultural	14,237
Resource/Recreation/Environment	3,591
Economic Development/Assistance	364
Total federal special revenue funds	<u>\$28,042</u>

Coal Severance Tax Permanent Trust Fund – The reserve for trust principal is comprised of the following (in thousands):

Purpose	Amount
Big Sky Economic Development Fund	\$ 22,510
Coal Severance Tax Bond Fund	10,374
Treasure State Endowment Fund	143,843
Treasure State Endowment Regional Water System Fund	29,872
Coal Severance Tax Permanent Fund	490,220
Coal Severance Tax Income Fund	(711)
Total	<u>\$696,108</u>

NOTE 15. RELATED PARTY TRANSACTIONS

The Montana Board of Regents, an agency within the State, is the guarantor of the loans owned by the Montana Higher Education Student Assistance Corporation (MHESAC), a private non-profit corporation and by the Student Assistance Foundation of Montana (SAF) and subsidiaries. The Board of Regents and MHESAC have three common board members. Approximately 75.74% of the Regents' outstanding loan volume, or \$1,241,985,089 is held by either MHESAC or SAF and subsidiaries. During fiscal year 2000, MHESAC undertook a reorganization under which its operating staff and assets were transferred to the Student Assistance Foundation of Montana, and MHESAC entered into agreements with SAF to provide management and loan servicing to MHESAC. The Board of Regents and SAF have three common board members. The Office of Commissioner of Higher Education (OCHE) paid SAF during fiscal year 2006 for its share of various costs, such as personnel costs for employees of SAF who performed services that were of direct benefit to the State, equipment leases, computer maintenance costs, utilities, and other shared operating expenses. The total amount of these expenses for fiscal year 2006 amounted to \$417,406.

A staff member in the Department of Administration, Personnel Division, serves as Director of the Montana Association of Health Care Purchasers for no remuneration. The Department pays this association \$1 per member per year to maintain its membership as well as a monthly fee of \$3 on behalf of each employee who participates in a managed care plan. These fees are payment for data analysis, actuarial analysis, and consulting services performed by association staff on behalf of member employers.

NOTE 16. CONTINGENCIES

A. Litigation

The State is party to legal proceedings, which normally occur in government operations. The legal proceedings are not, in the opinion of the State's legal counsel and the Department of Administration, likely to have a material adverse impact on the State's financial position, except where listed below.

In State of Montana v. Philip Morris, Inc., No. CDV 97-306 (Mont. 1st Jud. Dist. Lewis & Clark County), the State of Montana filed various claims against six tobacco manufacturers seeking recovery of an unspecified amount of damages, penalties and attorney's fees. The lawsuit was resolved eventually through two settlements. The State first settled its claims against one of the manufacturers, Liggett & Meyers, Inc., for \$1 million to be paid over a 20-year period. It next settled its claims against the remaining manufacturers in November 1998 for a base settlement amount of \$832 million payable over 26 years. The base amount was augmented by \$90 million in 1999, with the additional amount to be paid in equal installments over a 10-year period beginning in 2007.

The settlement provides that the cigarette manufacturers may offset against their payment in any year certain amounts of money if it is found that the original settling manufacturers (known as OPMs) have lost more than 2% of their market share to non-settling manufacturers (known as NPMs) and that the disadvantages imposed by the settlement were a "significant factor" in the market share loss. The settlement further provides that the offset, known as the "NPM adjustment" may not be taken against the payments to any state that has enacted a "qualifying statute" and diligently enforced the statute during the year in question. Montana enacted such a qualifying statute in 1999, Title 16, Chapter 11, Parts 401 – 404, MCA.

In March 2006, a determination was made pursuant to the settlement that the OPMs had lost sufficient market share in 2003 to trigger an NPM adjustment analysis, and that disadvantages caused by the settlement were a significant factor in the market share loss. The State has filed a motion in the lawsuit seeking a declaration that it diligently enforced its qualifying statute during 2003. The OPMs have moved to compel arbitration of the question, which motion is pending in the court. In the opinion of the counsel good factual arguments exist to show that the State diligently enforced its statute during the year in question. However, legal and procedural uncertainties exist that make an adverse determination reasonably possible. An adverse determination on the diligent enforcement issue could result in the loss of some or all of the State's 2003 payment which would

be recouped through an offset of payments due in future years. At present, the NPM case involves roughly \$1.8 million that was withheld from the April 2006 payment to the State. At this time, the State of Montana would not have an additional payment in relation to the NPM adjustment case, but more potential NPM adjustment issues may arise.

This settlement has also formed the basis for other lawsuits against the state. On July 1, 2002, a group of cigarette manufacturers and marketers filed suit against the Attorneys General of 31 states, including Montana, in the United States District Court for the Southern District of New York, seeking a declaration that the provisions of Title 16, Chapter 11, Part 4, MCA, violate several provisions of the United States Constitution, and seeking injunctive relief against the enforcement of the statutes. Grand River Enterprises Six Nations, Ltd., v. Pryor et al., Docket No. 02 CV 5068 (U.S. Dist. Ct., S.D.N.Y.). An adverse outcome could threaten the ability of the State to continue to receive payments from the tobacco companies under the settlement of the Mazurek case discussed above. The potential loss to the Treasury could amount to \$30-35 million annually. The federal district court had dismissed the complaint, but the United States Court of Appeals for the Second Circuit has reversed the trial court and remanded one of the claims for further proceedings. The United States Supreme Court has denied review, and the case has been remanded for further proceedings. In the opinion of counsel, good defenses exist to the claims, and an adverse result impairing or preventing receipt of the State's payment is possible, but unlikely.

In September 2002, a coalition of school districts, teachers, and parents filed an action, Columbia Falls Elementary School District v. State of Montana, No. BDV-2002-528 (Mont. 1st Jud. Dist. Lewis & Clark County), that alleges that Montana's system for funding public education violates the requirements of the Montana Constitution. The complaint seeks a declaratory judgment that the system violates the Montana Constitution and declaratory and injunctive relief compelling the State to (1) study and determine the components of free quality public elementary and secondary education and the costs of delivering such education; (2) implement a funding system based on educationally relevant factors; (3) fully fund and equitably distribute the State's share of the costs of public elementary and secondary education; (4) include a cost adjustment factoring the funding system; and (5) establish a mechanism for monitoring and adjusting the funding system and an award of attorney's fees. The court denied the State's motion for summary judgment.

The district court sat for the trial in this case from January 20, 2004 through February 4, 2004. Both parties submitted witness, exhibits, and cross-examined witnesses. On April 15, 2004, the court entered its order holding the school funding system unconstitutional. The State appealed the judgment, and the plaintiffs have cross-appealed certain aspects of the judgment as well. The Supreme Court heard oral argument on the appeal and cross-appeal on October 20, 2004, and the Montana Supreme Court has issued an order that the school funding system violates the Montana Constitution, and has upheld the District order that the State had until October 2005 to address this issue. The State and the plaintiffs have settled the plaintiffs' attorney fee in the amount of \$499,732. The parties have agreed to submit that claim for funding by the Montana legislature. Significant additional expenditures on K-12 education may be required in future years, and further litigation in this case is possible regarding school funding.

Beginning in February 2001, the Montana Department of Fish Wildlife and Parks became the defendant in a number of lawsuits challenging the constitutionality and enforcement of Initiative Measure 143, which banned the issuance of new licenses for game farms in Montana, prohibiting the transfer of existing licenses, and prohibited game farm licenses from allowing the shooting of game farm animals on a game farm for a fee or other remuneration. Most of these cases sought declaratory and injunctive relief, but several cases are now pending in which game farmers have alleged that I-143 takes their property without just compensation in violation of the state and federal constitutions, and in which they seek damages from the State for the alleged uncompensated taking. The State believes valid defenses exist to the claims asserted in these cases. One of the cases, Spoklie v. State of Montana, U.S. District Ct., D. Mont. Docket No. CV-02-102-GF-SHE, has been dismissed in its entirety, and the dismissal has now been affirmed by the Ninth Circuit of Appeals. In a second case, Kafka v. Montana Department of Fish Wildlife, and Parks, Hill County Docket No. DV-02-059, the state district court has denied the taking claim and entered final judgment in favor of the State. In Buhlmann et al. v. State of Montana et al., Lewis and Clark Docket No. DV-2002-555, the court has entered judgment in favor of the State on the taking claims, and appeal has been taken to the Montana Supreme Court. Both the Kafka and Buhlman decisions are on appeal before the Montana Supreme Court. Royal Tine Ranch v. State, Flathead County Docket No. DV-02-606C, is submitted on cross-motions for summary judgment. Wallace v. State of Montana, Ravalli County Docket No. 02-254, has been dismissed without prejudice, and the Bowman v. Montana Fish, Wildlife and Parks, Fergus County Docket No. DV-2002-02, case has been dismissed without prejudice for failure to prosecute. Spoklie v. Montana Department of Fish, Wildlife and

Parks, Sheridan County Docket No. 11013, Mesaros v. Department of Fish, Wildlife and Parks, Cascade County Docket No. BDV 03-0119, are in varying stages of pretrial preparation. Based on the courts' treatment of the cases thus far, in the opinion of counsel, good defenses exist to all of these claims, although adverse decisions remain possible. The amount of loss cannot be estimated at this time.

In Montana Association for Independent Disability Service, Inc., et al., filed in Montana First Judicial Court, Lewis and Clark County, Cause No. BDV 2002-558, (MAIDS) a class action lawsuit was filed on the part of individually-named developmentally disabled persons and the Montana Association for Independent Disability Services, Inc., a consortium of community-based private facilities serving the developmentally disabled population. The plaintiffs allege that the named defendants, Judy Martz, Gail Gray, and Joe Matthews in their official capacities "configure" the wage and benefit structure of employees at community-based facilities serving developmentally disabled persons at a level that is lower than the level established at Eastmont and MDC. It is alleged that this causes employees to leave the community-based facilities at a higher rate, thereby jeopardizing the quality and quantity of the services provided in the community-based facilities. This allegedly has the effect of precluding individuals with developmental disabilities from living in the community in the least restrictive, most independent circumstances possible. The wage configuration by the defendants allegedly constitutes a violation of statutes concerning the objective of placing developmentally disabled individuals in independent living situations, the establishment of uniform reimbursement rates equivalent to Medicare covered services, the right to enjoy life, liberty, safety, health and happiness (Article II Section 3, Montana State Constitution), to dignity and equal protection (Article II Section 4, Montana State Constitution) and of the requirement of Article XII Section 3 that the State and legislature provide assistance to those in need. The plaintiffs seek declaratory and injunctive relief concerning the proper establishment of reimbursement rates, attorney's fees and costs. The Court entered an order on March 30, 2004, granting the motion for Class Certification. The Court has scheduled a five-week bench trial for May 15, 2007. The fiscal impact on the State should the plaintiffs prevail, and the amount of any potential award for attorney fees and costs is not determinable at this time. An adverse determination in this case is reasonably possible.

In Stavenjord v. State Compensation Insurance Fund, the first decision was issued by the Workers Compensation Court on May 22, 2001. It addressed the issue of whether the failure of the Occupational Disease Act (ODA) to provide PPD (permanent partial disability) benefits equivalent to the benefits provided

in the Montana WCA (workers compensation act) violates the claimant's right to equal protection of the law. Relying on the Henry case (previous case from the Supreme Court finding that vocational rehabilitation benefits must also be paid under the ODA), the court held that Title 39, Chapter 72, Part 405, MCA, is unconstitutional as applied to Debra Stavenjord. "Where PPD benefits calculated pursuant to the WCA are greater than the benefits available to a claimant under the ODA, constitutional equal protection guarantees require that benefits be computed and paid in accordance with the WCA. The claimant in this case is entitled to \$27,027 under the WCA, versus \$10,000 under the ODA." The Montana Supreme Court affirmed the case on April 1, 2003. On August 27, 2004, the Workers Compensation Court held that Stavenjord is retroactive to June 3, 1999 (the date of the Henry decision). The court held that a common fund is created for claimants reaching Maximum Medical Improvement on or after June 3, 1999. The cost of retroactively paying benefits for claims in the period of June 3, 1999 through May 21, 2001 was estimated at \$2.2 million and was recorded in the loss reserves of the financial statements. There is no impact on the Old Fund liability with this ruling. This decision was appealed to the Montana Supreme Court.

The Montana Supreme Court issued their decision on the appeal on October 6, 2006, holding that a common fund was not created. The court also held that the decision applies retroactively to claims from July 1, 1987. The cost to retroactively pay claims to July 1, 1987, was estimated at \$14 to \$19 million for the Montana State Fund (New Fund – for claims on or after July 1, 1990). The impact on the Old Fund liability for claims that occurred from July 1, 1987 to June 30, 1990 was estimated at \$5 to \$7 million. As the Supreme Court held that claims closed by either court order or settlement are excluded, and the cost estimates above included these claims, the estimates will be reduced. Revised cost estimates have not yet been completed. Actual cost impact is unknown.

In Reesor v. Montana State Fund, 2004 MT 370, Reesor was receiving Social Security retirement benefits at the time he suffered an industrial accident. He received an impairment award, but was denied other permanent partial disability (PPD) benefits pursuant to Title 39, Chapter 71, Part 710, MCA, which provides that persons who are receiving Social Security benefits or are eligible for full Social Security retirement benefits are ineligible for PPD benefits other than an impairment award. Reesor challenged the constitutionality of Title 39, Chapter 71, Part 710, MCA, on equal protection grounds and sought full PPD benefits. On July 26, 2003, the Workers Compensation Court found Title 39, Chapter 71, Part 710, MCA, to be constitutional. Reesor appealed to the Montana Supreme Court, where on December 22, 2004, the court held that limiting

Reesor's permanent partial benefit pursuant to Title 39, Chapter 71, Part 710, MCA, violated the Equal Protection Clause of the Montana Constitution. Pending before the Workers Compensation Court are the retroactive application of the decision and common fund status. MSF has estimated the cost of benefits associated with a retroactive application of Reesor. MSF's estimate did not include claims with entitlement dates occurring on or after July 1, 1991 through June 30, 1995 because the Russette decision appears to make Reesor inapplicable during that timeframe. Excluding the Russette timeframe, for claims arising on or after July 1, 1990 through December 22, 2004, the increase in benefit costs for MSF is estimated at \$2 million. For claims arising on or after July 1, 1987 through June 30, 1990, the retroactive application of Reesor will result in an estimated benefit cost increase of \$1 million for the Old Fund. The potential for the litigation to create a liability for MSF and the State of Montana is reasonably possible. Actual cost impact should the decision be applied retroactively is unknown.

Satterlee v. Lumberman's Mutual Casualty Company et al., WCC No. 2003-0840, was filed before the Workers Compensation Court on July 18, 2003. The Satterlee vs. Lumberman's Mutual Casualty Company case challenges the constitutionality of State statute, (Title 39, Chapter 71, Part 710, MCA) passed by the Montana Legislature in 1981. That statute authorizes termination of permanent total disability benefits and rehabilitation benefits when a claimant receives or becomes eligible to receive full Social Security retirement benefits or an alternative to that plan. Should the statute be found to be unconstitutional as applied to permanent total disability benefits, Satterlee, et al. request payment of lifetime permanent total disability benefits. In addition, the petition requests certification of this case as a class action or the establishment of a common fund for similarly situated claimants. Petitioners filed a motion and brief for summary judgment on the constitutional issue. The Workers Compensation Court provided an opportunity for any workers compensation insurer to intervene until June 6, 2005. The Workers Compensation Court rendered its decision on December 12, 2005, holding that Title 39, Chapter 71, Part 710, MCA, is constitutional as applied on PTD benefits. This case was appealed to the Supreme Court on December 1, 2006. Should Title 39, Chapter 71, Part 710, MCA, ultimately be held to be unconstitutional as applied to permanent total disability benefits by the Workers Compensation Court and/or the Montana Supreme Court, and also found to apply retroactively, the cost impact has been estimated for non-settled claims arising on or after July 1, 1990 through December 22, 2004 at \$135 million to \$186 million. The estimated cost of retroactively applying the decision to the Old Fund, for non-settled permanent total disability claims that occurred before July 1, 1990, is \$93 million to \$116 million. The potential for liability for MSF and the

State of Montana is reasonably possible. Actual cost impact is unknown.

B. Federal Contingencies

USDA Commodities – In fiscal year 2006, the State distributed \$4,456,233 in commodities. The value of the commodities stored in the State's warehouses was \$1,767,147 at June 30, 2006, for which the State is liable in the event of loss.

Gain Contingencies – Certain natural resource and corporation tax assessments are not reported on the State's financial statements because they are being protested administratively. As of June 30, 2006, the following assessments (by fund type) were outstanding (in thousands):

Taxes	General	State Special Revenue	Permanent Trust	Debt Service	Capital Projects
Coal severance	\$ 563	\$ 176	\$1,091	\$20	\$252
Oil & gas	11,103	1,204	-	-	-
Corporation tax	5,621	-	-	-	-
Total	<u>\$17,287</u>	<u>\$1,380</u>	<u>\$1,091</u>	<u>\$20</u>	<u>\$252</u>

Collectibility of these contingencies is dependent upon the decisions of the court, other authorities, or agreed upon settlements. Interest related to Corporation Tax Assessments is distributed to the General Fund.

Loss Contingencies – Certain corporations have requested refunds that are not reported on the State's financial statements as of June 30, 2006. The corporations have appealed the decision. As of June 30, 2006, these include \$20,131,109 of General Fund corporation tax refunds.

C. Miscellaneous Contingencies

Loan Guarantees – As of June 30, 2006, the Board of Investments (BOI) had provided loan guarantees from the Coal Severance Tax Permanent Trust Fund to the Economic Development Bonds Enterprise Fund and the Facility Finance Authority, (a component unit of the State of Montana), totaling \$131,280,309. The BOI's exposure to bond issues of the Economic Development Bonds Enterprise Fund was \$84,050,000, while exposure to bond issues, surety bonds and designated loans of the Facility Finance Authority was \$47,230,309.

Certain companies have protested property taxes that have been included as revenue on the State's financial statements as of June 30, 2006. As of June 30, 2006, these include \$4,683,535 of protested General Fund property taxes.

NOTE 17. SUBSEQUENT EVENTS

Bond/Loan Issues

In July 2006, Montana State University issued its Series K refunding debt in the principal amount of \$13.71 million. The proceeds were used to refund portions of the Series E 1998 and Series D 1996 debt.

On July 13, 2006, the Montana Facility Finance Authority issued a bond in the amount of \$7,920,000 for Alternatives, Inc. Proceeds were used to purchase a Howard Johnson Express Inn and remodel it into a women's prerelease facility plus other program services.

On August 9, 2006, the Montana Facility Finance Authority issued two bonds in the amount of \$14,335,000 to finance the construction of methamphetamine treatment facilities

On August 17, 2006, the Montana Facility Finance Authority issued a bond in the amount of \$30,410,000 for St. John's Lutheran Ministries.

On September 20, 2006, the Montana Housing Authority issued \$70,805,000 of Single Family Mortgage Bonds Series 2006C to finance the purchase of eligible single family mortgage loans.

On September 26, 2006, the Department of Natural Resources and Conservation issued \$1,800,000 of General Obligation Taxable Bonds Series 2006E for its private loan program.

A loan in the amount of \$6,100,000 was made from the Montana Facility Finance Authority Variable Rate Program to Bozeman Deaconess Health Services on October 5, 2006, to finance the purchase of equipment.

NOTE 18. MATERIAL VIOLATIONS OF FINANCE-RELATED LEGAL PROVISIONS

Constitutionality of Retirement Plan Funding

The Montana Constitution, Article VIII, Section 15 states that public retirement plans shall be funded on an actuarially sound basis. As of June 30, 2006, there were four retirement plans not in compliance: the Teachers Retirement System (TRS), the Public Employees Retirement System (PERS) Defined Benefit Retirement Plan, the Sheriffs Retirement System, and the Game Wardens and Peace Officers Retirement System. Detailed information for each plan can be found in Note 6.

BUDGETARY COMPARISON SCHEDULE
GENERAL AND MAJOR SPECIAL REVENUE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(amounts expressed in thousands)

GENERAL FUND				
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
REVENUES				
Licenses/permits	\$ 128,669	\$ 128,669	\$ 130,230	\$ 1,561
Taxes:				
Natural resource	113,112	113,112	109,692	(3,420)
Individual income	677,815	677,815	698,686	20,871
Corporate income	91,427	91,427	150,802	59,375
Property	177,311	177,311	181,722	4,411
Fuel	-	-	-	-
Other	210,076	210,076	210,346	270
Charges for services/fines/forfeits/settlements	39,645	39,645	40,465	820
Investment earnings	13,909	13,909	19,494	5,585
Sale of documents/merchandise/property	396	396	374	(22)
Rentals/leases/royalties	57	57	22	(35)
Contributions/premiums	-	-	-	-
Grants/contracts/donations	3,560	3,560	2,875	(685)
Federal	26,919	26,919	30,968	4,049
Federal indirect cost recoveries	120	120	78	(42)
Other revenues	-	-	1,186	1,186
Total revenues	1,483,016	1,483,016	1,576,940	93,924
EXPENDITURES				
Current:				
General government	321,636	323,664	313,178	10,486
Public safety/corrections	149,417	159,560	157,609	1,951
Transportation	276	286	281	5
Health/social services	311,586	314,338	310,535	3,803
Education/cultural	721,412	722,914	697,274	25,640
Resource/recreation/environment	23,666	28,845	28,419	426
Economic development/assistance	26,580	26,646	25,526	1,120
Debt service:				
Principal retirement	2,756	2,867	700	2,167
Interest/fiscal charges	149	149	149	-
Capital outlay	5,153	5,270	1,714	3,556
Total expenditures	1,562,631	1,584,539	1,535,385	49,154
Excess of revenue over (under) expenditures	(79,615)	(101,523)	41,555	143,078
OTHER FINANCING SOURCES (USES)				
Loans issued				
Bonds issued				
Insurance proceeds	628	628	72	(556)
General capital asset sale proceeds	71	71	44	(27)
Transfers in	73,866	73,866	63,428	(10,438)
Transfers out	(22,089)	(26,076)	(25,230)	846
Total other financing sources (uses)	52,476	48,489	38,314	(10,175)
Net change in fund balances (Budgetary basis)	(27,139)	(53,034)	79,869	132,903
RECONCILIATION OF BUDGETARY/GAAP REPORTING				
1. Securities lending income	-	-	2,240	2,240
2. Securities lending costs	-	-	(2,197)	(2,197)
3. Inception of lease/installment contract	-	-	597	597
4. Adjust expenditures for encumbrances	-	-	(654)	(654)
5. Adjustments for nonbudgeted activity	-	-	40,514	40,514
Net change in fund balances (GAAP basis)	(27,139)	(53,034)	120,369	173,403
Unreserved fund balances - July 1	289,675	289,675	289,675	-
Prior period adjustments	-	-	(2,008)	(2,008)
Decrease (increase):				
Encumbrances reserve	-	-	681	681
Long-term loans/notes receivable reserve	-	-	(113)	(113)
Advances to other funds reserve	-	-	31	31
Special revenue reserve	-	-	-	-
Escheated property reserve	-	-	(55)	(55)
Unreserved fund balances - June 30	\$ 262,536	\$ 236,641	\$ 408,580	\$ 171,939

The notes to the required supplementary information are an integral part of this schedule.

STATE SPECIAL REVENUE FUND				FEDERAL SPECIAL REVENUE FUND			
ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
\$ 129,800	\$ 129,800	\$ 130,000	\$ 200	\$ -	\$ -	\$ -	\$ -
130,277	130,277	123,050	(7,227)	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
11,589	11,589	11,797	208	-	-	-	-
198,445	198,445	207,259	8,814	-	-	-	-
77,611	77,611	82,019	4,408	-	-	-	-
96,808	96,808	78,924	(17,884)	54,176	54,176	30,463	(23,713)
8,554	8,554	10,716	2,162	311	311	1,008	697
5,326	5,326	3,996	(1,330)	-	-	-	-
596	596	924	328	-	-	-	-
8,425	8,425	8,390	(35)	-	-	-	-
24,018	24,018	16,149	(7,869)	1,069	1,069	817	(252)
28,948	28,948	9,970	(18,978)	1,569,113	1,569,113	1,379,581	(189,532)
39,398	39,398	31,418	(7,980)	52,620	52,620	50,077	(2,543)
-	-	3,160	3,160	-	-	260	260
759,795	759,795	717,772	(42,023)	1,677,289	1,677,289	1,462,206	(215,083)
168,048	170,441	135,383	35,058	14,103	17,612	11,439	6,173
45,453	46,715	40,050	6,665	81,421	98,555	44,655	53,900
385,002	421,983	278,476	143,507	316,041	323,001	247,524	75,477
95,791	96,275	77,390	18,885	955,203	969,061	879,480	89,581
91,611	92,604	91,554	1,050	189,577	335,587	182,480	153,107
134,120	150,500	106,464	44,036	89,858	100,024	54,242	45,782
75,796	82,301	58,886	23,415	76,489	104,960	62,793	42,167
2,536	2,456	390	2,066	275	278	251	27
526	526	526	-	42	42	42	-
74,906	72,274	27,278	44,996	39,101	56,668	22,411	34,257
1,073,789	1,136,075	816,397	319,678	1,762,110	2,005,788	1,505,317	500,471
(313,994)	(376,280)	(98,625)	277,655	(84,821)	(328,499)	(43,111)	285,388
480	480	-	(480)	-	-	-	-
65,700	65,700	5,700	(60,000)	-	-	-	-
3,653	3,653	(753)	(4,406)	27	27	(242)	(269)
126	126	95	(31)	-	-	20	20
150,107	150,107	130,058	(20,049)	37,640	37,640	4,137	(33,503)
(18,734)	(15,749)	(4,853)	10,896	(48,364)	(48,189)	(18,400)	29,789
201,332	204,317	130,247	(74,070)	(10,697)	(10,522)	(14,485)	(3,963)
(112,662)	(171,963)	31,622	203,585	(95,518)	(339,021)	(57,596)	281,425
-	-	1,411	1,411	-	-	17	17
-	-	(1,676)	(1,676)	-	-	(17)	(17)
-	-	70	70	-	-	178	178
-	-	(9,057)	(9,057)	-	-	(1,067)	(1,067)
-	-	4,843	4,843	-	-	58,654	58,654
(112,662)	(171,963)	27,213	199,176	(95,518)	(339,021)	169	339,190
(49,508)	(49,508)	(49,508)	-	(1,502)	(1,502)	(1,502)	-
-	-	527	527	-	-	(4)	(4)
-	-	2,151	2,151	-	-	457	457
-	-	(27,606)	(27,606)	-	-	58	58
-	-	137	137	-	-	-	-
-	-	(4,611)	(4,611)	-	-	(747)	(747)
-	-	-	-	-	-	-	-
\$ (162,170)	\$ (221,471)	\$ (51,697)	\$ 169,774	\$ (97,020)	\$ (340,523)	\$ (1,569)	\$ 338,954

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

NOTE RSI-1. BUDGETARY REPORTING

A. State Budget Process

The Montana Legislature meets in the odd-numbered years to prepare annual budgets for the next biennium. The constitution requires that legislative appropriations not exceed available revenues. The Legislature utilizes revenue estimates in the budgetary process to establish appropriation levels. Expenditures may not legally exceed budgeted appropriations at the fund level. In addition, the State Constitution prohibits borrowing to cover deficits incurred because appropriations exceeded anticipated revenues. State law requires an appropriation for disbursements from the general, special revenue and capital projects funds, except for those special revenue funds from non-state and non-federal sources restricted by law or by the terms of an agreement. The level of budgetary control is established by fund type, except capital project funds, which are at project level. Budgets may be established in other funds for administrative purposes.

Agency budget requests are submitted to the Governor, and the Legislative Fiscal Division receives a copy. The Office of Budget and Program Planning (OBPP) and the Governor analyze the requests, establish priorities, and along with other information develop the requests into the executive budget request submitted to the Legislature. Joint appropriations subcommittee hearings are held, and an omnibus appropriation bill is reported in the House and subsequently sent to the Senate. The Legislature generally enacts one bill to establish the majority of appropriations for the next two fiscal years. OBPP establishes appropriations for each program by accounting entity (fund) within an agency. The Legislature enacts other appropriations, but only within the available revenue. Agencies must prepare and submit to the budget director operational plans showing the allocation of operating budgets by expenditure category (i.e., personal services, operating expenses, equipment, etc.). The budget director or other statutorily designated approving authority may authorize changes among expenditure categories and transfers between program appropriations.

Appropriations may not be increased by amendment in the General Fund. However, a department, institution, or agency of the executive branch desiring authorization to make expenditures from the General Fund during the first fiscal year of the biennium from appropriations for the second fiscal year of the biennium may apply for authorization from the Governor through the budget director. In the second year of the biennium, during the legislative session, the

Legislature may authorize supplemental appropriations. The Governor, or designee, may approve budget amendments for non-general fund monies not available for consideration by the Legislature and for emergencies. In the accompanying financial schedule, original and final budget amounts are reported. There were no expenditures in excess of total authorized appropriations in the State's budgeted funds for the fiscal year.

Appropriations may be continued into the next fiscal year when authorized by the Legislature or the Governor's office. After fiscal year-end, appropriations that are not continued are reverted. The reverted appropriations remain available for one fiscal year for expenditures that exceed the amount accrued or encumbered. Fund balances are not reserved for reverted appropriations. For fiscal year 2006, reverted governmental fund appropriations were as follows: General Fund - \$19.2 million, State Special Revenue Fund - \$147.5 million, and Federal Special Revenue Fund - \$201.2 million. Agencies are allowed to carry forward 30% of their reverted operating appropriations into the next two fiscal years. This amount can be used for new expenditures at the request of the agency and upon approval of OBPP.

Appropriations for capital projects funds are not made on an annual basis, but are adopted on a project-length basis. Because these non-operating budgets primarily serve a management control purpose, and related appropriations are continuing in nature, no comparison between budgeted and actual amounts for funds budgeted on this basis is provided.

B. Budget Basis

The Legislature's legal authorization ("appropriations") to incur obligations is enacted on a basis inconsistent with GAAP. The budget basis differs from GAAP for encumbrances outstanding at fiscal year-end; compensated absences, fixed assets and inventories purchased in proprietary funds; certain loans from governmental funds; and other miscellaneous nonbudgeted activity (e.g., bad-debt write-offs, etc.).

REQUIRED SUPPLEMENTARY INFORMATION
PENSION PLAN INFORMATION

Pension Plan Information
Single Employer Systems
Schedule of Funding Progress
(in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability(AAL) Entry Age (b)	Unfunded (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as Percentage of Covered Payroll ((b-a)/c)
HPORS						
07/01/04	79,104	104,069	24,965	76.01%	7,844	318.27%
06/30/05	82,050	112,938	30,888	72.65%	9,104	339.28%
06/30/06	87,189	112,002	24,813	77.85%	7,878	314.97%
JRS						
07/01/04	45,134	34,724	(10,410)	129.98%	4,403	(236.43)%
06/30/05	47,552	34,525	(13,027)	137.73%	4,462	(291.95)%
06/30/06	51,808	37,159	(14,649)	139.43%	4,762	(307.62)%

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

NOTE RSI-2. PENSION PLAN INFORMATION

The information presented in this required supplementary schedule was determined as part of the actuarial valuations at the dates indicated in the table below. Additional information as of the latest actuarial valuation follows:

Pension Plan Information Single Employer Systems		
	HPORS	JRS
Contributions (in thousands)		
Employer	\$2,905	\$1,229
Employee	847	333
License and registration fees	277	
Actuarial valuation date	6/30/06	6/30/06
Actuarial cost method	Entry age	Entry age
Amortization method	Level percentage of total salaries, open	Level percentage of total salaries, open
Remaining amortization period	18 years	30 years
Asset valuation method	4-year smoothed market	4-year smoothed market
Actuarial assumptions:		
Investment rate of return	8.0%	8.0%
Projected salary increases (includes inflation factor)	4.25%	4.25%
Merit	0%-7.3%	None
Postretirement benefit increases	None	None

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2006

AMOUNT

PEACE CORPS

08.999	Miscellaneous Non-Major Grants	9,495
		TOTAL \$9,495

DEPARTMENT OF AGRICULTURE

10.025	Plant and Animal Disease, Pest Control, and Animal Care	90,028
10.069	Conservation Reserve Program	83,535
10.162	Inspection Grading and Standardization	54,407
10.163	Market Protection and Promotion	399,428
10.225	Community Food Projects: From Missoula Food Bank	17,608
10.303	Integrated Programs: From Univ. of Calif. Davis	1,024
10.450	Crop Insurance: From Fork Peck Com. College	19,707
10.475	Cooperative Agreements with States for Intrastate Meat and Poultry Inspection	2,191,225
10.500	Cooperative Extension Service	3,497,955
10.500	Cooperative Extension Service: From Univ. of Minnesota	10,043
10.550	Food Donation	1,907,018
10.557	Special Supplemental Nutrition Program for Women, Infants, & Children	12,852,443
10.558	Child and Adult Care Food Program	9,032,803
10.560	State Administrative Expenses for Child Nutrition	874,813
10.565	Commodity Supplemental Food Program	1,728,279
10.567	Food Distribution Program on Indian Reservations	3,440,725
10.570	Nutrition Services Incentive	959,766
10.572	WIC Farmers' Market Nutrition Program (FMNP)	86,197
10.574	Team Nutrition Grants	188,965
10.579	Child Nutrition Discretionary Grants Limited Availability	59,720
10.601	Market Access Program: From US. Livestock Gen. Exp.	4,760
10.601	Market Access Program: From West. US Ag Trd Assoc.	1,372
10.652	Forestry Research	60,432
10.652	Forestry Research: From A Carhart	(10,187)
10.664	Cooperative Forestry Assistance	4,391,848
10.670	National Forest Dependent Rural Communities	17,393
10.672	Rural Development, Forestry, and Communities	157,767
10.676	Forest Legacy Program	9,222,393
10.677	Forest Land Enhancement Program	54,400

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2006

AMOUNT

10.700	National Agricultural Library	1,276
10.853	LOCAL Television Loan Guarantee Program	58,183
10.901	Resource Conservation and Development	74,000
10.902	Soil and Water Conservation	202,529
10.904	Watershed Protection and Flood Prevention	69,207
10.920	Grassland Reserve Program	3,541
10.999	Miscellaneous Non-Major Grants	124,309
10.999	Miscellaneous Non-Major Grants: From National Fish & Wildlife Fd.	53,333
10.999	Miscellaneous Non-Major Grants: From Fort Belknap Com. Council	20,757
TOTAL		\$52,003,002

CHILD NUTRITION CLUSTER

10.553	School Breakfast Program	4,323,290
10.555	National School Lunch Program	17,026,439
10.556	Special Milk Program for Children	37,567
10.559	Summer Food Service Program for Children	837,211
TOTAL		\$22,224,507

EMERGENCY FOOD ASSISTANCE CLUSTER

10.568	Emergency Food Assistance Program (Administrative Costs)	181,745
10.569	Emergency Food Assistance Program (Food Commodities)	776,644
TOTAL		\$958,389

FOOD STAMP CLUSTER

10.551	Food Stamps	89,998,309
10.561	State Administrative Matching Grants for Food Stamp Program	8,242,812
TOTAL		\$98,241,121

SCHOOLS AND ROADS CLUSTER

10.665	Schools and Roads: Grants to States	12,801,169
10.666	Schools and Roads - Grants to Counties	105,286
TOTAL		\$12,906,455

DEPARTMENT OF COMMERCE

11.302	Economic Development Support for Planning Organizations	85,074
11.417	Sea Grant Support	16,169
11.550	Public Telecommunication Facilities-Planning and Construction	120,000

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2006

		AMOUNT
11.999	Miscellaneous Non-Major Grants	367,877
TOTAL		\$589,120
PUBLIC WORKS AND E.D. CLUSTER		
11.300	Economic Development: Grants for Public Works and Infrastructure Development: From Bear Paw Development	113,494
11.307	Economic Adjustment Assistance	(34,425)
TOTAL		\$79,069
DEPARTMENT OF DEFENSE		
12.112	Payments to States in Lieu of Real Estate Taxes	34,222
12.400	Military Construction National Guard	12,959,637
12.401	National Guard Military Operations and Maintenance Projects	14,570,405
12.404	National Guard Civilian Youth Opportunities	1,777,108
12.999	Miscellaneous Non-Major Grants	987,953
TOTAL		\$30,329,325
DEPARTMENT OF HOUSING & URBAN DEVELOPMENT		
14.103	Interest Reduction Payments Rental and Cooperative Housing for Lower Income Families	236,604
14.169	Housing Counseling Assistance Program	266,744
14.228	Community Development Block Grant/States Program	10,447,508
14.231	Emergency Shelter Grants Program	398,638
14.235	Supportive Housing Program	27,014
14.238	Shelter Plus Care	0
14.239	Home Investment Partnerships Program	5,809,218
14.241	Housing Opportunities for Persons with AIDS	487,155
14.246	Community Development Block Grants/Economic Development Initiative	17,964
14.871	Section 8 Housing Choice Vouchers	16,437,158
14.999	Miscellaneous Non-Major Grants	297,400
TOTAL		\$34,425,403
SECTION 8 PROJECT-BASED CLUSTER		
14.195	Section 8 Housing Assistance Payments Program Special Allocations	16,922,043
14.856	Lower Income Housing Assistance Program-Section 8 Moderate Rehabilitation	1,787,333
TOTAL		\$18,709,376

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2006

AMOUNT

DEPARTMENT OF THE INTERIOR

15.043	Indian Child and Family Education	1,882
15.114	Indian Education: Higher Education Grant Program	57,396
15.130	Indian Education: Assistance to Schools	19,218
15.224	Cultural Resource Management	96,345
15.225	Recreation Resource Management	19,559
15.227	Distribution of Receipts to State and Local Governments	267,418
15.228	Wildland Urban Interface Community and Rural Fire Assistance	1,096,900
15.231	Fish, Wildlife and Plant Conservation Resource Management	229,025
15.250	Regulation Surface Coal Mining and Surface Effects of Underground Coal Mining	1,084,245
15.252	Abandoned Mine Land Reclamation (AMLR) Program	4,348,269
15.504	Water Reclamation and Reuse Program	41,284
15.507	Water 2025	14,689
15.608	Fish and Wildlife Management Assistance	123,606
15.608	Fish and Wildlife Management Assistance: From Pacific States Marine	3,047
15.615	Cooperative Endangered Species Conservation Fund	1,021,537
15.623	North American Wetlands Conservation Fund	3,506
15.625	Wildlife Conservation and Restoration	4,793
15.632	Conservation Grants Private Stewardship for Imperiled Species	88,212
15.633	Landowner Incentive	975,865
15.634	State Wildlife Grants	1,350,469
15.637	Migratory Bird Joint Ventures	37,993
15.642	Challenge Cost Share	2,799
15.805	Assistance to State Water Resources Research Institutes	113
15.808	U.S. Geological Survey-Research and Data Acquisition	34,063
15.809	National Spatial Data Infrastructure Competitive Cooperative Agreements Program	3,821
15.900	National Archives-NHPRC	103,788
15.904	Historic Preservation Fund Grants-in-Aid	1,004,481
15.912	National Historic Landmark	20,648
15.914	National Register of Historic Places	76,329
15.916	Outdoor Recreation: Acquisition, Development and Planning	402,705
15.999	Miscellaneous Non-Major Grants	729,786

TOTAL **\$13,263,791**

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AMOUNT

FISH AND WILDLIFE CLUSTER

15.605	Sport Fish Restoration	7,360,499
15.611	Wildlife Restoration	5,976,436
TOTAL		\$13,336,935

DEPARTMENT OF JUSTICE

16.001	Law Enforcement Assistance: Narcotics and Dangerous Drugs-Laboratory Analysis	13,101
16.202	Offender Reentry Program	543,484
16.523	Juvenile Accountability Incentive Block Grants	338,377
16.525	Grants to Reduce Violent Crimes Against Women on Campus	92,170
16.529	Education and Training to End Violence Against and Abuse of Women with Disabilities	119,262
16.540	Juvenile Justice and Delinquency Prevention: Allocation to States	919,947
16.547	Victims of Child Abuse	24,991
16.548	Title V Delinquency Prevention	100,000
16.550	State Justice Statistics Program For Statistical Analysis Centers	60,022
16.554	National Criminal History Improvement Program (NCHIP)	269,000
16.560	National Institute of Justice Research, Evaluation, and Development Project Grants	113,383
16.575	Crime Victim Assistance	1,569,610
16.576	Crime Victim Compensation	270,021
16.579	Byrne Formula Grant Program	332,837
16.580	Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Prog	1,084,848
16.585	Drug Court Discretionary Grant Program	18,948
16.588	Violence Against Women Formula Grants	959,035
16.589	Rural Domestic Violence and Child Victimization Enforcement Grant Program	3,996
16.590	Grants to Encourage Arrest Policies and Enforcement of Protection Orders	186,714
16.593	Residential Substance Abuse Treatment for State Prisoners	7,556
16.609	Community Prosecution and Project Safe Neighborhoods	193,730
16.710	Public Safety Partnership and Community Policing Grants	1,569,697
16.727	Enforcing Underage Drinking Laws Program	352,461
16.738	Edward Byrne Memorial Justice Assistance Grant Program	1,613,076
16.999	Miscellaneous Non-Major Grants	10,111
TOTAL		\$10,766,377

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AMOUNT

DEPARTMENT OF LABOR

17.002	Labor Force Statistics	745,572
17.005	Compensation and Working Conditions Data	61,093
17.203	Labor Certification for Alien Workers	82,923
17.225	Unemployment Insurance	81,767,101
17.235	Senior Community Service Employment Program	457,616
17.245	Trade Adjustment Assistance-Workers	856,240
17.261	Employment and Training Administration Pilots, Demonstrations, and Research Projects	247,085
17.266	Work Incentive Grants: From MJTP	70,508
17.267	Incentive Grants - WIA Section 503	666,049
17.504	Consultation Agreements	469,080
17.600	Mine Health and Safety Grants	124,688
17.720	Disability Employment Policy Development: From MJTP Inc	116,495
TOTAL		\$85,664,450

EMPLOYMENT SERVICES CLUSTER

17.207	Employment Service	6,105,049
17.801	Disabled Veterans Outreach Program (DVOP)	659,551
17.804	Local Veterans' Employment Representative Program	68,857
TOTAL		\$6,833,457

WORKFORCE INVESTMENT ACT CLUSTER

17.258	WIA Adult Program	2,630,889
17.259	WIA Youth Activities	2,910,528
17.260	WIA Dislocated Workers	3,056,718
TOTAL		\$8,598,135

DEPARTMENT OF STATE

19.401	Educational Exchange - University Lecturers (Professors) and Research Scholars	55,541
19.404	Professional Development International Educators/Administrators	114,140
19.406	College & University Affiliations Program: From Ghana Basic Ed	31,996
TOTAL		\$201,677

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AMOUNT

DEPARTMENT OF TRANSPORTATION

20.106	Airport Improvement Program	2,187,246
20.218	National Motor Carrier Safety	978,847
20.219	Recreational Trails Program	1,032,944
20.513	Capital Assistance Program for Elderly Persons and Persons with Disabilities	444,261
20.607	Alcohol Open Container Requirements	4,920,209
20.608	Minimum Penalties for Repeat Offenders for Driving While Intoxicated	144,021
20.700	Pipeline Safety	16,430
20.703	Interagency Hazardous Materials Public Sector Training and Planning Grants	159,031
20.999	Miscellaneous Non-Major Grants	22,039
TOTAL		\$9,905,028

FEDERAL TRANSIT CLUSTER

20.500	Federal Transit Capital Improvement Grants	467,211
20.507	Federal Transit - Formula Grants	1,509,787
TOTAL		\$1,976,998

HIGHWAY PLAN. & CONST. CLUSTER

20.205	Highway Planning and Construction	278,071,628
TOTAL		\$278,071,628

HIGHWAY SAFETY CLUSTER

20.600	State and Community Highway Safety: From Healthy Mother Healty Babys	1,029,140
20.602	Occupant Protection	266,769
20.603	Federal Highway Safety Data Improvements Incentive Grants	1,790
20.604	Safety Incentive Grants for Use of Seatbelts	71,337
20.605	Safety Incentives to Prevent Operation of Motor Vehicles by Intoxicated Persons	340,842
TOTAL		\$1,709,878

DEPARTMENT OF TREASURY

21.999	Miscellaneous Non-Major Grants	151,934
TOTAL		\$151,934

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AMOUNT

OFFICE OF PERSONNEL MANAGEMENT

27.001	Federal Civil Service Employment	122,441
TOTAL		<u>\$122,441</u>

EQUAL EMPLOYMENT OPPORTUNITY COMMISSION

30.002	Employment Discrimination-State and Local Fair Employment Practices	219,365
TOTAL		<u>\$219,365</u>

GENERAL SERVICES ADMINISTRATION

39.003	Donation of Federal Surplus Personal Property	16,929
39.011	Election Reform Payments	123,452
TOTAL		<u>\$140,381</u>

NATIONAL AERONAUTICS AND SPACE ADMINISTRATION

43.001	Aerospace Education Services Program	49,629
43.001	Aerospace Education Services Program: From Yellowstone Eco. Res. Ctr	669
43.002	Technology Transfer: From Texas A&M Univ.	58,487
43.002	Technology Transfer: From Wright Patterson AFB	182,006
43.999	Miscellaneous Non-Major Grants	522,265
TOTAL		<u>\$813,056</u>

NATIONAL FOUNDATION ON THE ARTS AND THE HUMANITIES

45.024	Promotion of the Arts-Grants to Organizations and Individuals	58,416
45.025	Promotion of the Arts-Partnership Agreements	570,120
45.129	Promotion of the Humanities-Federal/State Partnership: From MT Comm. Humanties	34,685
45.163	Promotion of the Humanities-Seminars and Institutes	53,629
45.301	Museums for America	854,929
45.313	Laura Bush 21st Century Librarian Program	86,959
45.999	Miscellaneous Non-Major Grants	80,549
TOTAL		<u>\$1,739,287</u>

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AMOUNT

NATIONAL SCIENCE FOUNDATION

47.074	Biological Sciences	82,258
47.076	Education and Human Resources	3,372,087
47.076	Education and Human Resources: From Assoc. of Amer. Coll.	3,065
47.999	Miscellaneous Non-Major Grants	38,875
TOTAL		\$3,496,285

SMALL BUSINESS ADMINISTRATION

59.037	Small Business Development Center	623,654
59.046	Microloan Program	(271)
59.999	Miscellaneous Non-Major Grants	144,384
TOTAL		\$767,767

DEPARTMENT OF VETERANS AFFAIRS

64.010	Veterans Nursing Home Care	25,807
64.014	Veterans State Domiciliary Care	81,950
64.015	Veterans State Nursing Home Care	3,065,319
64.124	All-Volunteer Force Educational Assistance	101,670
64.203	State Cemetery Grants	138,387
TOTAL		\$3,413,133

ENVIRONMENTAL PROTECTION AGENCY

66.433	State Underground Water Source Protection	85,900
66.436	Surveys, Studies, Investigations & Demonstrations of the Clean Water Act	169,112
66.439	Targeted Watersheds Grants	11,884
66.454	Water Quality Management Planning	98,981
66.458	Capitalization Grants For State Revolving Funds	4,317,709
66.460	Nonpoint Source Implementation Grants	2,585,278
66.461	Regional Wetland Program Development Grants	135,368
66.463	Water Quality Cooperative Agreements	5,958
66.467	Wastewater Operator Training Grant Program (Technical Assistance)	12,454
66.468	Capitalization Grants for Drinking Water State Revolving Fund	12,923,771

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	AMOUNT
66.471 State Grants to Reimburse Operators of Small Water Sys for Training Certification Costs	159,629
66.474 Water Protection Grants to the States	42,634
66.479 Wetland Program Grants - State/Tribal Environmental Outcome Wetland Demonstration Program	153,334
66.514 Science To Achieve Results (STAR) Fellowship Program	10,842
66.605 Performance Partnership Grants	6,248,282
66.608 One Stop Reporting	362,618
66.609 Protection of Children and Older Adults (Elderly) from Environmental Health Risks	8,000
66.708 Pollution Prevention Grants Program	37,848
66.717 Source Reduction Assistance	15,617
66.802 Superfund State, Political Subdivision, and Indian Tribe Site - Specific Coop.	1,680,708
66.805 Leaking Underground Storage Tank Trust Fund Program	795,017
66.809 Superfund State and Indian Tribe Core Program Cooperative Agreements	208,530
66.811 Brownfield Pilots Cooperative Agreements	37,213
66.814 Brownfields Training, Research, and Technical Assistance Grants and Cooperative Agreements: From Colorado School of Mines	40,272
66.817 State and Tribal Response Program Grants	595,723
66.999 Miscellaneous Non-Major Grants	12,391
TOTAL	\$30,755,073

DEPARTMENT OF ENERGY

81.041 State Energy Program	398,788
81.042 Weatherization Assistance for Low-Income Persons	3,047,849
81.049 Office of Science Financial Assistance Program: From Inland NW Research Allia.	389,444
81.086 Conservation Research and Development	2,130,262
81.104 Office of Environmental Cleanup and Acceleration: From Mountain States Energy	182,563
81.116 Science and Engineering Training to Support Diversity-Related Programs: From Inland NW Research Allia.	82,496
81.119 State Energy Program Special Projects	77,096
TOTAL	\$6,308,498

FEDERAL EMERGENCY MANAGEMENT AGENCY

83.547 First Responder Anti-Terrorism Training Assistance: From Butte Silverbow	(124)
TOTAL	(124)

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AMOUNT

DEPARTMENT OF EDUCATION

84.002	Adult Education - State Grant Program	1,446,460
84.010	Title I Grants To Local Education Agencies	40,439,961
84.011	Migrant Education - Basic State Grant Program	967,402
84.013	Title I Program for Neglected and Delinquent Children	113,999
84.016	Undergraduate International Studies and Foreign Language	53,208
84.048	Vocational Education - Basic Grants to States	5,599,844
84.069	Leveraging Educational Assistance Partnership	232,915
84.083	Women's Educational Equity Act Program	174,757
84.116	Fund for the Improvement of Postsecondary Education	707,827
84.126	Rehabilitation Services-Vocational Rehabilitation Grants to States	10,817,212
84.129	Rehabilitation Long-Term Training	64,528
84.133	National Institute on Disability and Rehabilitation Research	47,435
84.133	National Institute on Disability and Rehabilitation Research: From Brain Injury Assoc.	55,688
84.133	National Institute on Disability and Rehabilitation Research: From OR Health Sciences Univ.	22,467
84.144	Migrant Education - Coordination Program(B)	273,876
84.153	Business and International Education	23,380
84.169	Independent Living-State Grants	298,853
84.177	Rehabilitation Services-Independent Living Services for Older Individuals/Blind	200,015
84.181	Special Education-Grants for Infants and Families with Disabilities	2,134,866
84.184	Safe and Drug-Free Schools and Communities - National Programs: From Hamilton School Dist.	171,348
84.185	Byrd Honors Scholarships	123,350
84.186	Safe and Drug-Free Schools and Communities - State Grants	2,165,935
84.187	Supported Employment Services for Individuals with Severe Disabilities	288,411
84.195	Bilingual Education - Professional Development	29,013
84.196	Education for Homeless Children and Youth	144,788
84.213	Even Start - State Educational Agencies	1,059,772
84.215	Fund for Improvement of Education	881,264
84.215	Fund for Improvement of Education: From Twin Bridges School	94,609
84.215	Fund for Improvement of Education: From Nat Council of Econ. Ed.	1,810
84.224	State Grants for Assistive Technology	544,879

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	AMOUNT
84.234 Projects with Industry	21,636
84.235 Rehabilitation Services Demonstration and Training Programs	541,191
84.243 Tech-Prep Education	538,100
84.256 Freely Associated States - Education Grant Program: From Univ. of California	9,368
84.264 Rehabilitation Training-Continuing Education	45,677
84.265 Rehabilitation Training-State Vocational Rehabilitation Unit In-Service	64,559
84.287 Twenty-First Century Community Learning Centers	5,009,195
84.293 Foreign Language Assistance	67,247
84.295 Ready-To-Learn Television: From PBS	17,505
84.298 State Grants for Innovative Programs	1,203,297
84.299 Indian Education - Special Programs	202,490
84.318 Education Technology State Grants	2,967,308
84.323 Special Education - State Program Improvement Grants for Children with Disabilities	528,188
84.324 Special Education-Research and Innovation to Improve Services and Results for Children	290,825
84.324 Special Education-Research and Innovation to Improve Services and Results for Children; From Calif. State Univ.	156,534
84.324 Special Education-Research and Innovation to Improve Services and Results for Children; From Univ. of California	3,069
84.325 Special Education - Personnel Preparation to Improve Services and Results for Children	681,776
84.326 Special Education - Technical Assistance and Dissemination to Improve Services and Results	231,250
84.330 Advanced Placement Program	428,628
84.331 Grants to States for Incarcerated Youth Offenders	5,259
84.332 Comprehensive School Reform Demonstration	832,582
84.334 Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR-UP)	1,911,877
84.335 Child Care Access Means Parents in School	38,182
84.346 Vocational Education-Occupational and Employment Information State Grants	117,594
84.357 Reading First State Grants	5,164,485
84.358 Rural Education	412,308
84.360 Dropout Prevention Programs	205,864
84.365 English Language Acquisition Grants	655,935
84.366 Mathematics and Science Partnerships	949,042
84.366 Mathematics and Science Partnerships: From Libby School District	19,864
84.367 Improving Teacher Quality State Grants	14,190,976
84.367 Improving Teacher Quality State Grants: From MT Council of Teachers	9,036

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		AMOUNT
84.369	Grants for State Assessments and Related Activities	3,435,240
84.373	Special Education -Technical Assistance on State Data Collection	14,095
84.938	Hurricane Education Recovery	60,750
84.998	American Printing House for the Blind	4,329
84.999	Miscellaneous Non-Major Grants	157,553
84.999	Miscellaneous Non-Major Grants: From Univ. of California	46,759
TOTAL		\$110,419,445
SPECIAL EDUCATION CLUSTER		
84.027	Special Education - Grants to States	32,683,264
84.173	Special Education - Preschool Grants	1,300,664
TOTAL		\$33,983,928
STUDENT FINANCIAL ASSISTANCE CLUSTER		
84.007	Federal Supplemental Educational Opportunity Grants	1,843,430
84.032	Federal Family Education Loans	2,486,835
84.033	Federal Work - Study Program	2,103,700
84.038	Federal Perkins Loan Program - Federal Capital Contributions	359,600
84.063	Federal Pell Grant Program	31,607,454
93.364	Nursing Student Loan Program	15,109
93.925	Scholarships for Health Professions Students from Disadvantaged Backgrounds	530,374
TOTAL		\$38,946,502
TRIO CLUSTER		
84.042	TRIO-Student Support Services	1,514,522
84.044	TRIO-Talent Search	742,277
84.047	TRIO-Upward Bound	1,592,631
84.066	TRIO-Educational Opportunity Centers	605,537
84.217	McNair Post - Baccalaureate Achievement	124,166
TOTAL		\$4,579,133
NATIONAL ARCHIVES AND RECORDS ADMINISTRATION		
89.003	National Historical Publications and Records Grants	5,811
TOTAL		\$5,811

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AMOUNT

ELECTION ASSISTANCE COMMISSION

90.401	Help America Vote Act Requirements Payments	8,110,847
	TOTAL	\$8,110,847

DEPARTMENT OF HEALTH AND HUMAN SERVICES

93.003	Public Health and Social Services Emergency Fund	2,585,409
93.041	Special Programs for the Aging-Title VII, Chapter 3-Programs for Prevention	30,436
93.042	Special Programs for the Aging-Title VII, Chapter 2-LongTerm Care Ombudsman Services	74,719
93.043	Special Programs for the Aging-Title III, Part D - DiseasePrevention/Health Promotion Serv	105,929
93.048	Special Programs for the Aging - Title IV and Title II Discretionary Projects	23,945
93.052	Nation Family Caregiver Support Program	746,129
93.104	Comprehensive Community Mental Health Services for Children with Ser Emotl Disturb (SED)	535,827
93.110	Maternal and Child Health Federal Consolidated Programs	203,498
93.116	Project Grant and Cooperative for Tuberculosis Control Program	172,602
93.127	Emergency Medical Services for Children	97,183
93.130	Primary Care Services-Resource Coordination and Development	313,932
93.150	Projects for Assistance in Transition from Homelessness (PATH)	290,063
93.157	Centers of Excellence	177,862
93.161	Health Program for Toxic Substances and Disease Registry	409,319
93.184	Disabilities Prevention	262,049
93.217	Family Planning Services	2,335,638
93.230	Consolidated Knowledge Development and Application Program	707,067
93.234	Traumatic Brain Injury-State Demonstration Grant Program	292,938
93.235	Abstinence Education	71,072
93.238	Cooperative Agreements/ State Treatment Outcomes and Performance Pilot Studies Enhancement	6,925
93.241	State Rural Hospital Flexibility Program	593,349
93.243	Substance Abuse and Mental Health Services-Projects of Regional and National Significance	1,132,331
93.251	Universal Newborn Hearing Screening	88,108
93.256	State Planning Grant - Health Care Access for the Uninsured	91,564
93.259	Rural Access to Emergency Devices Grant	190,908
93.263	Occupational Safety and Health Training Grant	59,995

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	AMOUNT
93.264 Nurse Faculty Loan Program (NFLP)	40,093
93.268 Immunization Grant	6,215,317
93.282 Mental Health National Research Service Awards for Research Training	49,947
93.283 Centers for Disease Control and Prevention-Investigations and Technical Assistance	11,328,862
93.307 Minority Health and Health Disparities Research	6,874,000
93.359 Nurse Education, Practice and Retention Grants	6,731
93.361 Nursing Research: From Univ. of Washington	114,488
93.389 National Center for Research Resources	478,036
93.556 Promoting Safe and Stable Families	1,252,952
93.558 Temporary Assistance for Needy Families (TANF)	29,768,340
93.563 Child Support Enforcement	9,179,317
93.566 Refugee and Entrant Assistance-State Administered Programs	141,154
93.568 Low Income Home Energy Assistance	17,186,737
93.569 Community Services Block Grant	3,025,893
93.570 Community Services Block Grant - Discretionary Awards: From Nat. Youth Sports Prg	84,500
93.586 State Court Improvement Program	145,495
93.590 Community-Based Family Resource and Support Grants	210,137
93.597 Grants to States for Access and Visitation Programs	67,444
93.599 Chafee Education and Training Vouchers Program (ETV)	158,668
93.600 Head Start	161,977
93.617 Voting Access for Individuals with Disabilities - Grants to States	68,000
93.630 Developmental Disabilities Basic Support and Advocacy Grants	625,645
93.631 Developmental Disabilities Projects of National Significance	30,139
93.632 University Centers for Excellence in Developmental Disabilities Education, Res, and Ser.	442,115
93.643 Children's Justice Grants to States	110,274
93.645 Child Welfare Service-State Grant	867,829
93.658 Foster Care Title IV-E	11,994,952
93.659 Adoption Assistance	6,538,959
93.667 Social Services Block Grant	7,492,461
93.669 Child Abuse and Neglect State Grants	126,355
93.671 Family Violence Prevention and Services/Grants for Battered Women's Shelters	737,163
93.674 Chafee Foster Care Independence Program	461,977

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	AMOUNT
93.767 State Children's Insurance Program	16,631,299
93.768 Medicaid Infrastr, Grants To Support the Competitive Employ of People with Disabilities	35,247
93.822 Health Careers Opportunities Program	823,046
93.822 Health Careers Opportunities Program: From Univ. of Washington	60,633
93.894 Resource and Manpower Development in the Environmental Health Sciences	111,118
93.912 Rural Outreach-Rural Network Developmental Program: From Critical Illness Found.	159,864
93.913 Grants to States for Operation of Offices of Rural Health	117,829
93.917 HIV Care Formula Grants	825,653
93.938 Cooperative Agreements to Support School Health Programs	287,377
93.940 HIV Prevention Activities-Health Department Based	1,487,897
93.944 HIV/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	61,609
93.945 Assistance Program for Chronic Disease Prevention	1,070,888
93.958 Block Grants for Community Mental Health Services	1,266,998
93.959 Block Grants for Prevention and Treatment of Substance Abuse	7,020,515
93.969 Geriatric Education Centers	390,576
93.970 Health Professions Recruitment Program for Indians	473,743
93.977 Preventive Health Services-Sexually Transmitted Diseases Control Grants	1,272,639
93.988 Cooperative Agreements for State-Based Diabetes Control Programs and Evaluations	662,079
93.991 Preventive Health and Health Services Block Grant	817,784
93.994 Maternal and Child Health Services Block Grant to the States	2,181,721
93.996 Bioterrorism Training and Curriculum Development Program: From ST Vincents Health	135,361
93.999 Miscellaneous Non-Major Grants	145,539
93.999 Miscellaneous Non-Major Grants: From St. James Healthcare	12,007
93.999 Miscellaneous Non-Major Grants: From Univ. of Washington	37,869
93.999 Miscellaneous Non-Major Grants: From Colorado State Univ.	4,000
TOTAL	\$163,678,045

AGING CLUSTER

93.044 Special Programs for the Aging-Title III, Part B-Supportive Services and Senior Centers	1,807,316
93.045 Special Programs for the Aging-Title III, Part C-Nutrition Services	2,816,149
TOTAL	\$4,623,465

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AMOUNT

CHILD CARE CLUSTER

93.575	Child Care and Development Block Grant	11,147,324
93.596	Child Care Mandatory and Matching Funds of the Child Care and Development	7,473,769
	TOTAL	\$18,621,093

MEDICAID CLUSTER

93.775	State Medicaid Fraud Control Units	536,694
93.777	State Survey and Certification of Health Care Providers and Suppliers	2,166,988
93.778	Medical Assistance Program	562,844,149
	TOTAL	\$565,547,831

CORPORATION FOR NATIONAL & COMMUNITY SERVICE

94.003	State Commissions	108,161
94.004	Learn and Serve America-School and Community Based Programs: From Corp. for National Service	855,707
94.005	Learn & Serve America-Higher Education	(319)
94.006	AmeriCorps	2,158,662
94.007	Planning and Program Development Grants: From Denver Options	77,153
94.009	Training and Technical Assistance	128,741
94.013	Volunteers in Service to America	527,601
	TOTAL	\$3,855,706

SOCIAL SECURITY ADMINISTRATION

96.007	Social Security Research and Demonstration	84,278
96.008	Social Security-Benefits Planning, Assistance, and Outreach Program	63,954
	TOTAL	\$148,232

DISABILITY INSURANCE/SSI CLUSTER

96.001	Social Security - Disability Insurance	4,997,692
	TOTAL	\$4,997,692

HOMELAND SECURITY

97.001	Pilot Demonstration or Earmarked Projects	7,854
97.004	State Domestic Preparedness Equipment Support Program	12,418,827
97.005	State and Local Homeland Security Training Program	24,292
97.012	Boating Safety Financial Assistance	371,089

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	AMOUNT
97.017 Pre-Disaster Mitigation (PDM) Competitive Grants	62,809
97.021 Hazardous Materials Assistance Program	2,000
97.023 Community Assistance Program State Support Services Element (CAP-SSSE)	82,157
97.029 Flood Mitigation Assistance	1,731
97.036 Disaster Grants - Public Assistance (Presidentially Declared Disasters)	118,622
97.039 Hazard Mitigation Grant	33,382
97.041 National Dam Safety Program	121,582
97.042 Emergency Management Performance Grants	1,491,637
97.045 Cooperating Technical Partners	379,514
97.047 Pre-Disaster Mitigation	5,095
97.053 Citizen Corps	17,051
97.070 Map Modernization Management Support	81,906
97.074 Law Enforcement Terrorism Prevention Program (LETPP)	436,021
97.078 Buffer Zone Protection Plan (BZPP)	300,000
97.999 Miscellaneous Non-Major Grants	26,153
TOTAL	\$15,981,722

HOMELAND SECURITY CLUSTER

97.067 Homeland Security Grant Program	1,712,109
TOTAL	\$1,712,109

UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT

98.001 USAID Foreign Assistance for Programs Overseas: From Assoc. Liason Office UCD	10,672
98.999 Miscellaneous Non-Major Grants	196,740
98.999 Miscellaneous Non-Major Grants: From Academy of Ed. Develop.	202,789
TOTAL	\$410,201

OTHER FEDERAL

99.999 Other Federal: From Pacific Power and Light	7,500
TOTAL	\$7,500

State of Montana
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AMOUNT

RESEARCH AND DEVELOPMENT CLUSTER

DEPARTMENT OF AGRICULTURE

10.001	Agricultural Research-Basic and Applied Research	115,030
10.025	Plant and Animal Disease, Pest Control, and Animal Care	213,200
10.200	Grants for Agricultural Research, Special Research Grants	4,796,082
10.200	Grants for Agricultural Research, Special Research Grants: From Univ. of Idaho	125,203
10.200	Grants for Agricultural Research, Special Research Grants: From Colorado State Univ.	16,008
10.200	Grants for Agricultural Research, Special Research Grants: From Kansas State	220,790
10.200	Grants for Agricultural Research, Special Research Grants: From New Mexico State Univ.	353,623
10.200	Grants for Agricultural Research, Special Research Grants: From N. Dakota State Univ.	14,670
10.200	Grants for Agricultural Research, Special Research Grants: From Oregon State Univ.	15,944
10.200	Grants for Agricultural Research, Special Research Grants: From South Dakota State Univ.	40,217
10.200	Grants for Agricultural Research, Special Research Grants: From Univ. of Calif. Davis	18,360
10.200	Grants for Agricultural Research, Special Research Grants: From Utah State Univ.	65,534
10.200	Grants for Agricultural Research, Special Research Grants: From Washington State Univ.	15,096
10.202	Cooperative Forestry Research	205
10.202	Cooperative Forestry Research: From Univ. of Tennessee	520
10.203	Payments to Agricultural Experiment Stations Under the Hatch Act	2,063,622
10.206	Grants for Agricultural Research-Competitive Research Grants	1,694,541
10.206	Grants for Agricultural Research-Competitive Research Grants: From Univ. of Mississippi	5,078
10.206	Grants for Agricultural Research-Competitive Research Grants: From Colorado State	36,109
10.206	Grants for Agricultural Research-Competitive Research Grants: From Fork Peck Com. College	(2,077)
10.206	Grants for Agricultural Research-Competitive Research Grants: From Univ. of Calif. Davis	55,098
10.206	Grants for Agricultural Research-Competitive Research Grants: From Univ. of Wisconsin	15,708
10.212	Small Business Innovation Research: From Bitterroot Restoration Inc.	353
10.212	Small Business Innovation Research: From MT Microbial Products	12,541

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10.215	Sustainable Agriculture Research and Education	24,111
10.217	Higher Education Challenge Grants	291,204
10.226	Secondary and Two-Year Postsecondary Agriculture Education Challenge Grants: From Dull Knife College	(39)
10.227	1994 Institutions Research Program: From Dull Knife College	(935)
10.227	1994 Institutions Research Program: From Fort Belknap College	3,310
10.250	Agricultural and Rural Economic Research	13,842
10.303	Integrated Programs	80,111
10.303	Integrated Programs: From Colorado State Univ.	81,755
10.303	Integrated Programs: From Univ. of Calif. Davis	50,261
10.304	Homeland Security - Agricultural: From Kansas State	27,076
10.305	International Science and Education Grants	1,084
10.443	Outreach and Assistance for Socially Disadvantaged Farmers and Ranchers	15,759
10.450	Crop Insurance: From Fork Peck Com. College	15
10.455	Community Outreach and Assistance Partnership Program	52,272
10.456	Rural Community Development Initiative	2,834
10.457	Commodity Partnerships for Risk Management Education	79,954
10.475	Cooperative Agreements with States for Intrastate Meat and Poultry Inspection	20,723
10.500	Cooperative Extension Service	33,884
10.500	Cooperative Extension Service: From MT Grain Growers Assoc.	1,501
10.500	Cooperative Extension Service: From Utah State Univ.	630
10.500	Cooperative Extension Service: From Washington State Univ.	31,864
10.500	Cooperative Extension Service: From Univ. of Wyoming	23,023
10.567	Food Distribution Program on Indian Reservations	26,454
10.652	Forestry Research	3,582,643
10.652	Forestry Research: From A Carhart	60,410
10.652	Forestry Research: From Nat. Fish & Wild. Found.	37,160
10.652	Forestry Research: From Utah State Univ.	53,867
10.664	Cooperative Forestry Assistance	17,685
10.672	Rural Development, Forestry, and Communities: From Univ. of Idaho	25,449
10.677	Forest Land Enhancement Program	(982)
10.678	Forest Stewardship Program	44,882
10.761	Technical Assistance and Training Grants	1,988

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10.901	Resource Conservation and Development	10,502
10.902	Soil and Water Conservation	63,695
10.912	Environmental Quality Incentives Program	90,764
10.960	Technical Agricultural Assistance: From Inter. Livestock Res. Inst.	22,759
10.961	Scientific Cooperation and Research	6,718
10.999	Miscellaneous Non-Major Grants	58,841
10.R&D	Miscellaneous Research and Development	240,378
10.R&D	Miscellaneous Research and Development: From Nat. Fish & Wild. Found	90,778
10.R&D	Miscellaneous Research and Development: From Univ. of Calif. Davis	(32)
10.R&D	Miscellaneous Research and Development: From Utah State Univ.	132,333
TOTAL		\$15,291,986

DEPARTMENT OF COMMERCE

11.112	Export Promotion Market Development Cooperation	(1,109)
11.303	Economic Development-Technical Assistance	97,415
11.427	Fisheries Development & Utilization Research	52,448
11.431	Climate and Atmospheric Research	110,524
11.437	Pacific Fisheries Data Program	15,337
11.439	Marine Mammal Data Program	69,704
11.440	Environmental Sciences, Applications, Data, and Education	7,216
11.611	Manufacturing Extension Partnership	511,910
TOTAL		\$863,445

DEPARTMENT OF DEFENSE

12.002	Procurement Technical Assistance For Business Firms	3,339,031
12.100	Aquatic Plant Control	62,998
12.106	Flood Control Projects	24,098
12.114	Collaborative Research and Development	1,543,372
12.300	Basic and Applied Scientific Research	2,945,748
12.300	Basic and Applied Scientific Research: From Center for Innovation Inc.	197,209
12.300	Basic and Applied Scientific Research: From Concurrent Tech. Inc.	207,048
12.300	Basic and Applied Scientific Research: From Ligocyte Pharmaceuticals	202,738
12.300	Basic and Applied Scientific Research: From S2 Corp	947,367
12.420	Military Medical Research and Development	1,385,132

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12.431	Basic Scientific Research	1,476,647
12.630	Basic, Applied, and Advanced Research in Science and Engineering	582,704
12.800	Air Force Defense Research Sciences Program	405,291
12.800	Air Force Defense Research Sciences Program: From Alameda Applied Sci. Inst.	29,747
12.800	Air Force Defense Research Sciences Program: From Princeton Univ.	7,753
12.800	Air Force Defense Research Sciences Program: From South Dakota State Univ.	26,979
12.901	Mathematical Sciences Grants Program	8,361
12.910	Research and Technology Development	760,448
12.910	Research and Technology Development: From Allutiiq Sec. & Tech.	(30,820)
12.910	Research and Technology Development: From S2 Corp	59,597
12.999	Miscellaneous Non-Major Grants	585,707
12.999	Miscellaneous Non-Major Grants: From Colorado State Univ.	109,703
12.999	Miscellaneous Non-Major Grants: From Univ. Tech. Res. Services	331,655
12.999	Miscellaneous Non-Major Grants: From Resodyn Corp	4,795
TOTAL		\$15,213,308

DEPARTMENT OF HOUSING & URBAN DEVELOPMENT

14.862	Indian Community Development Block Grant Program	15,964
14.901	Healthy Homes Demonstration Grants	60,961
TOTAL		\$76,925

DEPARTMENT OF THE INTERIOR

15.034	Agriculture on Indian Lands	7,062
15.222	Cooperative Inspection Agreements with States and Tribes	264,779
15.224	Cultural Resource Management	674,841
15.225	Recreation Resource Management	58,410
15.228	Wildland Urban Interface Community and Rural Fire Assistance	8,532
15.252	Abandoned Mine Land Reclamation (AMLR) Program	38,001
15.299	Miscellaneous Non-Major Grants	128,917
15.504	Water Reclamation and Reuse Program	61,069
15.506	Water Desalination Research and Development Program	14,541
15.608	Fish and Wildlife Management Assistance	252,912
15.608	Fish and Wildlife Management Assistance: From Nat. Fish & Wild. Found	35,344
15.611	Wildlife Restoration	28,019

State of Montana
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15.615	Cooperative Endangered Species Conservation Fund	(1,296)
15.617	Wildlife Conservation and Appreciation	4,067
15.634	State Wildlife Grants	33,466
15.699	USDI/Fish & Wildlife Service	185,146
15.699	USDI/Fish & Wildlife Service: From Nez Pierce Tribe	9,701
15.805	Assistance to State Water Resources Research Institutes	14,264
15.808	U.S. Geological Survey-Research and Data Acquisition	905,526
15.808	U.S. Geological Survey-Research and Data Acquisition: From American View Inc.	27,764
15.808	U.S. Geological Survey-Research and Data Acquisition: From Auburn University	17,530
15.809	National Spatial Data Infrastructure Competitive Cooperative Agreements Program	4,847
15.810	National Cooperative Geologic Mapping Program	187,327
15.811	Gap Analysis Program	270,884
15.812	Cooperative Research Units Program	614,379
15.900	National Archives-NHPRC	612,883
15.904	Historic Preservation Fund Grants-in-Aid	41,272
15.910	National Natural Landmarks Program	842,322
15.915	Technical Preservation Services	205,155
15.915	Technical Preservation Services: From Univ. of Wyoming NPS Ctr	3,712
15.916	Outdoor Recreation: Acquisition, Development and Planning	56,580
15.921	Rivers, Trails and Conservation Assistance	53,493
15.923	National Center for Preservation Technology and Training	33,869
15.999	Miscellaneous Non-Major Grants	1,691,753
15.R&D	Miscellaneous Research and Development	1,712,335
TOTAL		\$9,099,406

DEPARTMENT OF JUSTICE

16.560	National Institute of Justice Research, Evaluation, and Development Project Grants	82,639
16.580	Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Prog	9,608
16.609	Community Prosecution and Project Safe Neighborhoods	12,950
16.710	Public Safety Partnership and Community Policing Grants	45,943
TOTAL		\$151,140

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State of Montana
Schedule of Expenditures of Federal Awards
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AMOUNT

DEPARTMENT OF LABOR

17.261	Employment and Training Administration Pilots, Demonstrations, and Research Projects	42,195
TOTAL		\$42,195

DEPARTMENT OF STATE

19.432	Overseas Educational Advising	270,813
19.500	Middle East Partnership Initiative (MEPI)	83,448
TOTAL		\$354,261

DEPARTMENT OF TRANSPORTATION

20.106	Airport Improvement Program: From Bert Mooney Airport	421,576
20.205	Highway Planning and Construction	415,458
20.215	Highway Training and Education: From South Carolina St. Univ.	32,208
20.600	State and Community Highway Safety	130,116
20.760	University Transportation Centers	2,009,960
20.R&D	Miscellaneous Non-Major: From Calif. Dept of Transportation	335,401
TOTAL		\$3,344,719

NATIONAL AERONAUTICS AND SPACE ADMINISTRATION

43.001	Aerospace Education Services Program	6,637,195
43.001	Aerospace Education Services Program: From Portland State Univ.	49,042
43.001	Aerospace Education Services Program: From Univ. of Minnesota	67,256
43.001	Aerospace Education Services Program: From Auburn University	85,788
43.001	Aerospace Education Services Program: From ADVR Inc	28,270
43.001	Aerospace Education Services Program: From Univ. of Alabama	6,254
43.001	Aerospace Education Services Program: From Univ. of California Davis	187,199
43.001	Aerospace Education Services Program: From Carnegie Inst. of Wash.	1,954
43.001	Aerospace Education Services Program: From College of Charleston	3,737
43.001	Aerospace Education Services Program: From Calif. State Univ.	17,477
43.001	Aerospace Education Services Program: From Goddard Space Flight Center	105,364
43.001	Aerospace Education Services Program: From Johns Hopkins Univ.	51,125
43.001	Aerospace Education Services Program: From Lockheed Martin	182,703
43.001	Aerospace Education Services Program: From Salish Kootenai College	42,653
43.001	Aerospace Education Services Program: From South Dakota State Univ.	11,766

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43.001	Aerospace Education Services Program: From Univ. of Colorado	104
43.001	Aerospace Education Services Program: From Univ. of Washington	34,524
43.002	Technology Transfer	396,005
43.002	Technology Transfer: From Carnnegie Inst. of Wash.	14,335
43.002	Technology Transfer: From Calif. State Univ.	4,241
43.002	Technology Transfer: From Univ. of North Dakota	84,764
43.999	Miscellaneous Non-Major Grants	1,345,750
43.999	Miscellaneous Non-Major Grants: From Calf. Instit. of Tech.	498
43.999	Miscellaneous Non-Major Grants: From NASA Jet Prop. Lab	41,054
43.999	Miscellaneous Non-Major Grants: From Colorado State Univ.	7,417
43.999	Miscellaneous Non-Major Grants: From SW Research Inst.	48,918
43.999	Miscellaneous Non-Major Grants: From Univ. of Idaho	31,254
43.999	Miscellaneous Non-Major Grants: From Sci. Appl. Inter. Corp.	55,791
TOTAL		\$9,542,438

NATIONAL FOUNDATION ON THE ARTS AND THE HUMANITIES

45.160	Promotion of the Humanities-Fellowships and Stipends	38,039
45.164	Promotion of the Humanities - Public Programs	9,981
TOTAL		\$48,020

NATIONAL SCIENCE FOUNDATION

47.041	Engineering Grants	862,658
47.041	Engineering Grants: From PFM Manufacturing	2,781
47.041	Engineering Grants: From ADVR Inc	3,453
47.041	Engineering Grants: From Univ. of California Davis	74,543
47.041	Engineering Grants: From Resonon Inc.	175
47.041	Engineering Grants: From Wavelength Electronics	12,395
47.049	Mathematical and Physical Sciences	2,305,762
47.049	Mathematical and Physical Sciences: From Univ. of Mississippi	271,436
47.049	Mathematical and Physical Sciences: From Center for Adapt. Optics	8,101
47.049	Mathematical and Physical Sciences: From Nat. Optic. Astron. Obs.	50,669
47.050	Geosciences	1,614,695
47.050	Geosciences: From Ohio State Univ.	113
47.050	Geosciences: From Univ. of Oregon	17,176

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	AMOUNT
47.070 Computer and Information Science and Engineering	587,836
47.074 Biological Sciences	6,055,892
47.074 Biological Sciences: From Duke University	27,704
47.074 Biological Sciences: From Amer. Ins. of Bio. Sci.	32,158
47.074 Biological Sciences: From Univ. of California Davis	192,880
47.074 Biological Sciences: From Harvard Univ.	58,369
47.074 Biological Sciences: From Univ. of Idaho	5,868
47.074 Biological Sciences: From Univ. of Arkansas	538
47.074 Biological Sciences: From Idaho State Univ.	43,037
47.075 Social, Behavioral, and Economic Sciences	406,572
47.075 Social, Behavioral, and Economic Sciences: From US Civilian Reseach	7,737
47.075 Social, Behavioral, and Economic Sciences: From National Res. Council	3,664
47.076 Education and Human Resources	3,813,812
47.076 Education and Human Resources: From City Univ. of New York	4,470
47.076 Education and Human Resources: From College of Will. & Mary	35,423
47.076 Education and Human Resources: From Ithaca College	15,882
47.076 Education and Human Resources: From Nat. Science Teach. Assoc.	446,114
47.078 Polar Programs	380,216
47.078 Polar Programs: From San Diego State	121,119
47.078 Polar Programs: From Univ. of Nebraska	47,687
47.079 International Science and Engineering (OISE): From US Civilian Reseach	1,672
47.999 Miscellaneous Non-Major Grants: From IRIS	20,419
47.R&D Miscellaneous Research and Development: From Ohio State Univ.	161,252
TOTAL	\$17,694,278

SMALL BUSINESS ADMINISTRATION

59.051 New Markets Venture Capital Program, Operational Assistance (OA) Grants	300,961
TOTAL	\$300,961

ENVIRONMENTAL PROTECTION AGENCY

66.034 Surveys, Studies, Invest., Demonst and Special Purp Act Relating to the Clean Air Act: From Arizona State	20,000
66.436 Surveys, Studies, Investigations & Demonstrations of the Clean Water Act	18,578
66.460 Nonpoint Source Implementation Grants: From Sheridan Co. Cons. Dist.	1,066

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66.460	Nonpoint Source Implementation Grants: From Stillwater Co. Cons. Dist.	99,162
66.460	Nonpoint Source Implementation Grants: From Yellowstone Co. Cons. Dist.	(1,506)
66.460	Nonpoint Source Implementation Grants: From Liberty Co. Cons. Dist.	18,478
66.463	Water Quality Cooperative Agreements	88,759
66.500	Environmental Protection: Consolidated Research	9,746
66.500	Environmental Protection: Consolidated Research: From Colorado School of Mines	32,522
66.509	Science To Achieve Results (STAR) Research Program	32,943
66.600	Environmental Protection Consolidated Grants Program	36,833
66.606	Surveys, Studies, Investigations and Special Purpose Grants	373,375
66.708	Pollution Prevention Grants Program	207,192
66.709	Multi-Media Capacity Building Grants for States and Tribes	374
66.714	Pesticide Environmental Stewardship Regional Grants	(1,061)
66.716	Surveys, Studies, Investigations, Training Demonstrations and Educational Outreach	196,551
66.802	Superfund State, Political Subdivision, and Indian Tribe Site - Specific Coop.: From CDM Corp.	73,824
66.802	Superfund State, Political Subdivision, and Indian Tribe Site - Specific Coop.: From CH2M Hill	34,718
66.806	Superfund Technical Assistance Grants for Citizen Groups at Priority Sites	1,614
66.808	Solid Waste Management Assistance	39,343
66.R&D	Miscellaneous Research and Development: From American Waterworks Assoc.	680,426
TOTAL		\$1,962,937

DEPARTMENT OF ENERGY

81.022	Used Energy-Related Laboratory Equipment Grants: From Center for Innovation Inc.	4,683
81.049	Office of Science Financial Assistance Program	735,559
81.049	Office of Science Financial Assistance Program: From UT-Batelle, LLC	1,409
81.049	Office of Science Financial Assistance Program: From Inland NW Research Allia.	156,151
81.049	Office of Science Financial Assistance Program: From Univ. of California	89,277
81.049	Office of Science Financial Assistance Program: From Univ. of Wyoming	11,718
81.049	Office of Science Financial Assistance Program: From Aerodyne Res. Inc.	36,994
81.049	Office of Science Financial Assistance Program: From Michigan State Univ.	28,056
81.049	Office of Science Financial Assistance Program: From Washington State Univ.	(97)
81.057	University Coal Research	232,277

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81.079	Regional Biomass Energy Programs	57,575
81.087	Renewable Energy Research and Development	50,735
81.087	Renewable Energy Research and Development: From Battelle	85,712
81.087	Renewable Energy Research and Development: From Big Sky Econ Dev.	148,276
81.087	Renewable Energy Research and Development: From Cons. for Plant Biotech.	19,998
81.087	Renewable Energy Research and Development: From Fuel Cell Energy Inc.	78,398
81.087	Renewable Energy Research and Development: From Pac. NW National Lab	1,738,487
81.087	Renewable Energy Research and Development: From Sandia National Lab	121,452
81.089	Fossil Energy Research and Development	1,805,178
81.089	Fossil Energy Research and Development: From Virginia PolyTechnic Inst.	98,615
81.089	Fossil Energy Research and Development: From Inland NW Research Allia.	441
81.104	Office of Environmental Cleanup and Acceleration	46,041
81.104	Office of Environmental Cleanup and Acceleration: From Mountain States Energy	315,305
81.117	Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training	17,321
81.119	State Energy Program Special Projects	292,558
81.121	Nuclear Energy Research, Development and Demonstration: From Idaho National Lab	316,810
81.122	Electricity Delivery and Energy Reliability, Research, Development and Analysis	89,966
81.999	Miscellaneous Non-Major Grants	2,255
81.999	Miscellaneous Non-Major Grants: From Colorado School of Mines	144,168
81.999	Miscellaneous Non-Major Grants: From Los Alamos Nat. Lab	16,469
81.R&D	Miscellaneous Research and Development: From Inland NW Research Allia.	1,260
81.R&D	Miscellaneous Research and Development: From Washington State Univ.	19,425
TOTAL		\$6,762,472

DEPARTMENT OF EDUCATION

84.019	Overseas Faculty Research Abroad	27,114
84.021	International: Overseas-Group Projects Abroad	20,990
84.042	TRIO-Student Support Services	24,919
84.116	Fund for the Improvement of Postsecondary Education	41
84.120	Minority Science and Engineering Improvement	47,554
84.133	National Institute on Disability and Rehabilitation Research	563,655
84.215	Fund for Improvement of Education	82,958

State of Montana
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	AMOUNT
84.215 Fund for Improvement of Education: From Golden Triangle	61
84.215 Fund for Improvement of Education: From Bozeman School Dist.	210,168
84.324 Special Education-Research and Innovation to Improve Services and Results for Children: From Univ. of California -Riverside	57,768
84.350 Transition to Teaching	1,655,248
TOTAL	\$2,690,476

DEPARTMENT OF HEALTH AND HUMAN SERVICES

93.044 Special Programs for the Aging-Title III, Part B-Supportive Services and Senior Centers: From MT Transportation Prtshp	29,863
93.051 New Demonstration Grants to States with Respect to Alzheimer's Disease	205,725
93.113 Biological Response to Environmental Health Hazards	692,847
93.115 Biometry and Risk Estimation Health Risks from Environmental Exposures	212,812
93.121 Oral Diseases and Disorders Research	301,368
93.136 Injury Prevention and Control Research and State and Community Based Programs	303,828
93.172 Human Genome Research: From Stanford Univ.	48,235
93.173 Research Related to Deafness and Communication Disorders	178,755
93.173 Research Related to Deafness and Communication Disorders: From Univ. of Texas	1,206
93.173 Research Related to Deafness and Communication Disorders: From Allegheny-Singer	252,002
93.178 Nursing Workforce Diversity	128,003
93.184 Disabilities Prevention	243,892
93.211 Telehealth Network Grants	(9)
93.226 Research on Healthcare Costs, Quality and Outcomes	79,319
93.242 Mental Health Research Grants	876,711
93.247 Advanced Education Nursing Grant Program: From OR Health Sciences Univ.	355,462
93.262 Occupational Safety and Health Program: From Univ. of Missouri	43,679
93.263 Occupational Safety and Health Training Grant	66,378
93.273 Alcohol Research Programs	546
93.276 Drug-Free Communities Support Program Grants: From Palo Alto Medical Found.	30,360
93.279 Drug Abuse Research Programs	36,710
93.283 Centers for Disease Control and Prevention-Investigations and Technical Assistance	103,569
93.286 Discovery and Applied Research for Technological Innovations to Improve Human Health	303,047

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93.286	Discovery and Applied Research for Technological Innovations to Improve Human Health: From Scripps Inst.	313,070
93.286	Discovery and Applied Research for Technological Innovations to Improve Human Health: From Sequoia Inst.	33,842
93.286	Discovery and Applied Research for Technological Innovations to Improve Human Health: From Univ. of Washington	88,278
93.301	Small Rural Hospital Improvement Grant Program	410,000
93.358	Advanced Education Nursing Traineeships	26,439
93.361	Nursing Research	46,197
93.361	Nursing Research: From Univ. of Iowa	25,943
93.389	National Center for Research Resources	14,670,740
93.389	National Center for Research Resources: From Univ. of Wyoming	41,529
93.389	National Center for Research Resources: From ZDye Corp	106,456
93.393	Cancer Cause and Prevention Research	355,097
93.394	Cancer Detection and Diagnosis Research	16,833
93.395	Cancer Treatment Research	341,034
93.396	Cancer Biology Research	219,709
93.398	Cancer Research Manpower	84,146
93.779	Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	957,829
93.822	Health Careers Opportunities Program: From Univ. of Washington	21,284
93.824	Basic/Core Area Health Education Centers: From Univ. of Washington	59,074
93.837	Heart and Vascular Diseases Research	409,173
93.838	Lung Diseases Research	759,925
93.838	Lung Diseases Research: From Univ. of California	545,817
93.839	Blood Diseases and Resources Research	28,129
93.846	Arthritis, Musculoskeletal and Skin Diseases Research	311,086
93.847	Diabetes, Endocrinology and Metabolism Research	134,737
93.849	Kidney Diseases, Urology and Hematology Research	(6,388)
93.853	Extramural Research Programs in the Neurosciences and Neurological Disorders	2,023,066
93.853	Extramural Research Programs in the Neurosciences and Neurological Disorders: From Univ. of California	25,196
93.855	Allergy, Immunology and Transplantation Research	3,097,530
93.856	Microbiology and Infectious Diseases Research	3,773,188
93.856	Microbiology and Infectious Diseases Research: From Colorado State Univ.	1,228,699

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		AMOUNT
93.856	Microbiology and Infectious Diseases Research: From Seattle Bio. Med. Res. Inst.	27,751
93.856	Microbiology and Infectious Diseases Research: From Univ. of Washington	143
93.859	Biomedical Research and Research Training	1,333,802
93.865	Child Health and Human Development Extramural Research	461,299
93.866	Aging Research	107,764
93.867	Vision Research: From Univ. of Rochester	306,120
93.996	Bioterrorism Training and Curriculum Development Program	113,680
93.999	Miscellaneous Non-Major Grants	45,934
93.999	Miscellaneous Non-Major Grants: From ORC Macro	1,388
TOTAL		\$37,039,847
 UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT		
98.002	Cooperative Development Program (CDP)	227,639
98.005	Institutional Capacity Building (ICB): From Univ. of Hawaii - Manoa	505,324
TOTAL		\$732,963
TOTAL RESEARCH AND DEVELOPMENT CLUSTER		\$121,211,777
TOTAL EXPENDITURES OF FEDERAL AWARDS		\$1,845,571,751

STATE OF MONTANA
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

Note 1. Basis of Accounting

The assistance amounts presented in the accompanying Schedule of Expenditures of Federal Awards of the State of Montana are generally expenditures or reimbursement revenues recorded on the modified accrual basis. This method recognizes expenditures in the accounting period in which the liability is incurred and revenues when measurable and available. Assistance amounts reported on a basis other than modified accrual are discussed below.

Food Distribution Program

The amount reported for Food Distribution programs (CFDA #10.567, #10.569, #10.570 and #10.565) represent the dollar value of food commodities distributed to eligible recipients during the year. The U.S. Department of Agriculture provides the current value of the commodities used by the state to compute the amount reported. The amount of funds received to administer the program is also included in the reported amount. Montana also distributes food commodities to other states in the western region of the United States, the value of which is excluded from the reported amounts. During fiscal year 2006, Montana distributed \$412,723 of food commodities under CFDA #10.567 to other states.

The state of Montana distributed \$4,456,233 in commodities in fiscal year 2006. The value at June 30, 2006 of commodities stored at the state's warehouse is \$ 1,767,147 for which the state is liable in the event of loss. The state has insurance to cover this liability.

Federal Surplus Personal Property

In accordance with General Service Administration guidelines, the amount presented for Donations of Federal Surplus Personal Property (CFDA #39.003) is 23.3 percent of the original acquisition cost of the property.

Capitalization Grants for State Revolving Funds

The amount presented for the Capitalization Grants for Water Pollution Control State Revolving Fund (CFDA #66.458) represents federal contributions, plus the administrative costs expended as of June 30, 2006. The amount of loans outstanding as of June 30, 2006 in the Water Pollution Control Revolving Fund Program is \$70,911,940.

The amount presented for the Drinking Water State Revolving Fund Program (CFDA #66.468) represents federal contributions, plus administrative costs expended as of June 30, 2006. The amount of loans outstanding for the program as of June 30, 2006 is \$44,254,693.

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Special Economic Development and Adjustment Assistance Program

The amount presented for the Special Economic Development and Adjustment Assistance Program (CFDA #11.307) represents federal contributions, plus the administrative costs expended as of June 30. The amount of loans outstanding as of June 30, 2006 is \$238,905.

Temporary Assistance to Needy Families Loan Program

The Temporary Assistance to Needy Families (CFDA #93.558) contributes to a housing loan program. The amount of housing loans outstanding as of June 30, 2006 is \$568,363.

Federal Family Education Loans

The Montana Guaranteed Student Loan Program (MGSLP) guaranteed \$186,314,325 (net) in new loans for the Federal Family Education Loans (CFDA #84.032) program during FY2006. The outstanding loan balance (including principal, accrued interest and collection cost) of loans guaranteed in previous years for which the federal government has imposed continuing compliance requirement was \$50,584,395 at June 30, 2006. The dollar amount of Default Aversion Fees transferred from the Federal Fund to the Agency's Operating Fund during FY2006 was \$1,006,662. In addition, MGSLP received or accrued revenue from the U.S. Department of Education in FY 2006 of \$17,003,774 for reinsurance to pay claims for loans due to death, disability, default and bankruptcy of the debtor.

Federal Perkins Loan Program – Federal Capital Contributions

The amount reported for the Federal Perkins Loan Program – Federal Capital Contributions (CFDA #84.038) represents federal contributions, plus the administrative costs, plus interest expended as of June 30, 2006. The amount of loans outstanding as of June 30, 2006 is \$30,508,524.

Nursing Student Loan Program

The amount of loans outstanding for the Nursing Student Loan Program (CFDA # 93.364) as of June 30, 2006 is \$1,662,282.

Childhood Immunization Grants

The amount reported for the Childhood Immunization Grants (CFDA #93.268) includes the dollar value of vaccine doses received during fiscal year 2006. The state used the CDC price list to calculate the value of doses received. During fiscal year 2006, Montana received 191,241 vaccine doses valued at \$4,176,803.

Tongue River –Northern Cheyenne Tribal Loan

The Northern Cheyenne Tribe and the Department of Natural Resources and Conservation entered into an agreement on July 1, 1994 in which the tribe agreed to loan the State of Montana \$11,300,000 of federal funds appropriated as part of the Northern Cheyenne Indian Reserved Water Rights Settlement. The loan is to assist the state in financing costs of the Tongue River Dam project.

No expenditures of tribal loan funds were incurred on project costs during FY 2006. The amount of the loan outstanding as of June 30, 2006 is \$9,271,795.

Middle Creek Dam Rehabilitation Project Loan

The Department of Natural Resources and Conservation and the U.S. Department of the Interior, Bureau of Reclamation (BOR) entered into an agreement on September 21, 1990. The BOR agreed to loan the State of Montana "...a sum of money not to exceed the lesser of (1) \$3,023,925 plus reimbursable interest during construction or (2) the actual cost of the project including reimbursable interest during construction..." The total loan repayable is \$2,990,129 and interest during construction is \$281,857. The amount, as of June 30, 2006, of loan outstanding is \$2,570,294 and of interest during construction outstanding is \$220,928.

Note 2. Type A Federal Programs

The State of Montana issues a biennial single audit report. The Single Audit report for the two fiscal years ended June 30, 2007 will be issued by March 31, 2008.

The Type A program threshold will be determined based on actual expenditures incurred during the two fiscal years ended June 30, 2007. The type A program threshold is estimated to be \$11,672,457 for the biennial period.

Note 3. CFDA #

The CFDA # assigned for each federal program listed in the Schedule of Expenditures of Federal Awards was based upon agency agreements with the federal government and the Catalog of Federal Domestic Assistance in effect during the audit period.

Programs not assigned a CFDA # in the Catalog of Federal Domestic Assistance were assigned a CFDA # in the format **.99, **.999, or **.R&D. The first two digits represent the federal agency, the third digit represents the division within the federal agency, and "R&D" designation represents a research and/or development program. Research is defined as a systematic study directed toward fuller scientific knowledge or understanding of the subject studied. The term research also includes activities involving the training of individuals in research techniques where such activities utilize the same facilities as other research and development activities and where such activities are not included in the instruction function. Development is the systematic use of knowledge and understanding gained from research directed toward the production of useful materials, devices, systems, or methods, including design and development of prototypes and processes. In cases where the federal agency does not have a designated CFDA #, the program was assigned a CFDA # in the format 99.999.

Note 4. Federal Excess Personal Property

The State of Montana receives Federal Excess Personal Property (FEPP). The title to this property remains with the federal agency. In accordance with General Services Administration guidelines, the amount presented in the FEPP is 23.3 percent of the original acquisition cost of the property. The following is a list of the FEPP received by the State of Montana.

<u>CFDA # Program</u>	<u>FY06 Amount</u>	<u>Inventory</u>
10.203 Payments to Ag. Exp. Station	\$0	136,264
10.500 Cooperative Extension Service	\$0	17,725
10.664 Cooperative Forestry Assistance	\$570,510	\$5,481,843
10.999 Agriculture Misc. Non. Major	65,979	\$172,482
12.300 Basic and Applied Scientific Research	\$93,993	\$93,993
12.420 Military Medical Research and Dev.t	\$25,555	\$25,555
12.431 Basic Scientific Research	\$80,858	\$80,858
12.800 Air Force Defense Research Sciences	\$73,758	\$73,758
12.910 Research and Technology Development	\$54,102	\$54,102
12.999 Defense Misc. Non. Major	\$0	\$53,590
43.001 Aerospace Education Services Program	\$88,656	\$88,656
43.999 NASA Misc. Non. Major	\$0	664,050
47.049 Mathematical and Physical Sciences	\$1,227	\$1,227
47.074 Biological Sciences	\$1,165	\$1,165
47.999 NSF Misc. Non. Major	\$0	\$542,553
81.087 Renewable Energy Research and Dev.	\$116,622	\$116,622
93.855 Allergy, Immun. &Transplant. Research	\$6,104	\$6,104

Note 5. Books for the Blind and Physically Handicapped:

The Montana State Library receives "talking book" machines, cassette books, accessories and magazines from the federal government under the Blind and Physically Handicapped program (CFDA #42.001). These items are then distributed to provide library services to blind and physically handicapped individuals. The federal government retains title to these items. The approximate value of the items in inventory (not distributed to individuals) at June 30, 2006, was \$926,424. The accompanying Schedule of Expenditures of Federal Awards does not include this amount.

Note 6. Unemployment Benefits

The unemployment compensation system is a federal-state partnership. State unemployment insurance laws must conform to certain provisions of the federal law. Federal funds are expended for administrative costs. State unemployment taxes must be deposited into a state account in the Federal Unemployment Trust Fund, and are used only to pay benefits. State Unemployment Insurance (UI) funds, as well as federal funds, are included on the Schedule of Expenditures of Federal Awards (SEFA).

The following schedule provides a breakdown of the state and federal portions of the total expenditures recorded for the Unemployment Insurance Program (CFDA #17.225), as well as a breakdown between administrative costs and benefit payments:

UI Administrative Costs	\$ 9,111,980
State UI Benefits	65,412,510
Federal UI Benefits	<u>7,242,611</u>
Total	\$ 81,767,101

Note 7. Subgrants to State Agencies

Federal assistance subgranted from one Montana state agency to another Montana state agency is shown only once on the Schedule of Expenditures of Federal Awards.

Federal assistance received from non-state sources which are considered subgrants by the awarding agency are treated as pass through grants to the state and are reported on the Schedule of Expenditures of Federal Awards.

Note 8. Subgrants to Non-State Entities

The following is a list of federal funds passed through from the state of Montana to non-state entities for fiscal year 2006.

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CFDA Number	Program Title	Amount Provided To Subrecipient
10.025	Plant and Animal Disease, Pest Control, and Animal Care	28,804
10.200	Grants for Agricultural Research, Special Research Grants	1,013,081
10.206	Grants for Agricultural Research & Competitive Research Grants	78,139
10.217	Higher Education Challenge Grants	101,200
10.455	Community Outreach and Assistance Partnership Program	14,892
10.457	Commodity Partnerships for Risk Management Education	31,978
10.500	Cooperative Extension Service	108,367
10.550	Food Donation	1,907,018
10.553	School Breakfast Program	4,323,290
10.555	National School Lunch Program	17,002,562
10.556	Special Milk Program for Children	37,567
10.557	Special Supplemental Nutrition Program for WIC	3,648,762
10.558	Child and Adult Care Food Program	1,006,883
10.559	Child and Adult Care Food Program	801,512
10.560	State Administrative Expenses for Child Nutrition	(14)
10.561	State Administrative Matching Grants for Food Stamp Program	1,196,759
10.567	Food Distribution Program on Indian Reservations	1,320,281
10.568	Emergency Food Assistance Program (Administrative Costs)	43,333
10.570	Nutrition Services Incentive	643,747
10.572	WIC Farmers' Market Nutrition Program (FMNP)	39,450
10.652	Forestry Research	19,741
10.664	Cooperative Forestry Assistance	2,773,243
10.665	Schools and Roads-Grants to States	12,799,829
10.672	Rural Development, Forestry, and Communities	115,165
10.677	Forest Land Enhancement Program	24,794
10.762	Solid Waste Management Grants	658
10.902	Soil and Water Conservation	66,958
10.999	Department of Agriculture - Miscellaneous	122,814
11.303	Economic Development - Technical Assistance	1,750
11.431	Climate and Atmospheric Research	28,891
12.002	Procurement Technical Assistance For Business Firms	740,383
12.114	Collaborative Research and Development	560,880
12.300	Basic and Applied Scientific Research	381,962
12.420	Military Medical Research and Development	112,197
12.999	Defense - Miscellaneous	114,140
14.228	Community Development Block Grant/State's Program	10,133,003
14.239	Home Investment Partnerships Program	5,371,463
14.856	Lower Income Housing Assistance Program - Section 8 Moderate Rehab	106,260
14.871	Section 8 Housing Choice Vouchers	1,288,594
14.901	Healthy Homes Demonstration Grants	4,682
15.200	Miscellaneous Non-Major Grants	194,739
15.222	Cooperative Inspection Agreements with States and Tribes	10,358
15.224	Cultural Resource Management	179,300
15.228	Wildland Urban Interface Community and Rural Fire Assistance	1,062,713
15.608	Fish and Wildlife Management Assistance	67,511
15.805	Assistance to State Water Resources Research Institutes	2,155
15.900	Miscellaneous	36,667
15.904	Historic Preservation Fund Grants-In-Aid	110,500
15.914	National Register of Historic Places	13,805
15.916	Outdoor Recreation-Acquisition, Development and Planning	210,564
15.999	Miscellaneous Department of the Interior	532,545
16.523	Juvenile Accountability Incentive Block Grants	353,198
16.540	Juvenile Justice and Delinquency Prevention: Allocation to States	659,497
16.548	Title V Delinquency Prevention Program	85,000
16.549	Part E State Challenge Activities	6,007
16.554	National Criminal History Improvement Program (NCHIP)	57,214
16.575	Crime Victim Assistance	1,461,595
16.579	Byrne Formula Grant Program	131,748
16.588	Violence Against Women Formula Grants	627,925
16.710	Public Safety Partnership and Community Policing Grants	12,561
16.727	Enforcing Underage Drinking Laws Program	350,115
16.738	Edward Byrne Memorial Justice Assistance Grant Program	864,213
17.235	Enforcing Underage Drinking Laws Program	441,581
17.258	WIA Adult Program	1,475,259
17.259	WIA Youth Activities	2,490,870
17.260	WIA Dislocated Workers	1,460,599
17.261	Employment and Training Administration Pilots, Demonstrations, and Research Projects	86,579
17.267	WIA Incentive Grants -Section 503 Grants to States	269,913
20.106	Airport Improvement Program	367,719
20.205	Highway Planning and Construction	4,759,227
20.218	National Motor Carrier Safety	5,945
20.219	Recreational Trails	955,421
20.500	Federal Transit - Capital Investment Grants	429,070
20.507	Federal Transit - Formula Grants	1,408,054

CFDA Number	Program Title	Amount Provided To Subrecipient
20.514	Transit Planning and Research	2,754
20.600	State and Community Highway Safety	839,472
20.602	Occupant Protection	106,858
20.605	Safety Incentives to Prevent Operation of Motor Vehicles by Intoxicated Persons	69,307
20.607	Alcohol Open Container Requirements	388,391
20.608	Minimum Penalties for Repeat Offenders for Driving While Intoxicated	131,633
20.703	Interagency Hazardous Materials Public Sector Training and Planning Grants	5,738
21.999	Treasury Miscellaneous	6,115
39.011	Election Reform Payments	3,935
43.000	NASA	310,160
43.001	Aerospace Education Services Program	136,859
43.002	Technology Transfer	29,980
45.025	Promotion of the Arts-Partnership Agreements	332,175
45.129	Promotion of the Humanities_Federal/State Partnership	6,700
45.310	State Library Program	68,068
47.041	Miscellaneous Non-Major Grants	41,484
47.049	Mathematical and Physical Sciences	98,871
47.050	Geosciences	228,008
47.074	Biological Sciences	986,749
47.075	Social, Behavioral, and Economic Sciences	32,726
47.076	Education and Human Resources	1,503,028
47.078	Polar Programs	14,996
59.037	Small Business Development Center	404,000
66.600	Environmental Protection Consolidated Grants-Program Support	23,331
66.811	Brownfield Pilots Cooperative Agreements	10,749
66.999	Miscellaneous Non Major	10,304
81.057	University Coal Research	5,024
81.087	Miscellaneous Non-Major Grants	7,613
81.089	Fossil Energy Research and Development	536,589
81.104	Office of Environmental Cleanup and Acceleration	37,450
81.119	State Energy Program Special Projects	170,879
84.002	Adult Education-State Grant Program	1,231,693
84.010	Title I Grants to Local Educational Agencies	39,899,790
84.011	Migrant Education-Basic State Grant Program	854,641
84.013	Title I Program for Neglected and Delinquent Children	113,999
84.027	Special Education - Grants to States	31,070,182
84.048	Vocational Education - Basic Grants to States	3,853,254
84.069	Leveraging Educational Assistance Partnership	216,173
84.133	National Institute on Disability and Rehabilitation Research	24,009
84.144	Migrant Education_Coordination Program	273,876
84.173	Special Education - Preschool Grants	1,260,564
84.181	Special Education - Grants for Infants and Families with Disabilities	3,000
84.186	Safe & Drug Free Schools and Communities - State Grants	2,002,063
84.195	Bilingual Education - Professional Development	2,500
84.196	Education for Homeless Children and Youth	104,736
84.213	Even Start - State Educational Agencies	1,001,526
84.215	Fund for the Improvement of Education	546,921
84.235	Rehabilitation Services Demonstration and Training Programs	87,025
84.243	Tech-Prep Education	223,402
84.264	Rehabilitation Training-Continuing Education	14,329
84.287	Twenty-First Century Community Learning Centers	4,780,582
84.293	Foreign Language Assistance	64,314
84.298	State Grants for Innovative Programs	939,617
84.318	Education Technology State Grants	2,835,318
84.323	Special Education-State Program Improvement Grants for Children with Disabilities	28,074
84.324	Special Education-Research and Innovation to Improve Services and Results for Children with Disabilities	36,932
84.325	Special Education - Personnel Prep. to Improve Serv. & Results for Children with Disabilities	183,078
84.330	Advanced Placement Incentive Program	200,425
84.332	Comprehensive School Reform Demonstration	796,132
84.334	Gaining Early Awareness and Readiness for Undergraduate Programs	1,003,954
84.350	Transition to Teaching	735,142
84.357	Reading First State Grants	4,512,466
84.358	Rural Education	369,451
84.360	Dropout Prevention Programs	145,746
84.365	English Language Acquisition Grants	561,232
84.366	Mathematics and Science Partnerships	911,504
84.367	Improving Teacher Quality State Grants	13,480,853
84.938	Hurricane Education Recovery	60,750
90.401	Help America Vote Act Requirements Payments	4,605,609
93.003	Public Health and Social Services Emergency Fund	2,000,032
93.041	Special Programs for the Aging -Title VII, Chapter 3: Prevention	30,537
93.042	Special Programs for the Aging -Title VII, Chapter 2: Long Term Care	74,719
93.043	Special Programs for the Aging - Title III, Part D: Disease Prevention	105,929
93.044	Special Programs for the Aging - Title III, Part B: Supportive Services	1,537,936

CFDA Number	Program Title	Amount Provided To Subrecipient
93.045	Special Programs for the Aging - Title III, Part C: Nutrition Services	2,527,212
93.048	Special Programs for the Aging - Title IV & and Title II - Discretionary Proj.	22,261
93.052	Nation Family Caregiver Support Program	702,456
93.104	Comprehensive Community Mental Health Services for Children	189,278
93.110	Maternal and Child Health Federal Consolidated Programs	38,320
93.113	Biological Response to Environmental Health Hazards	7,661
93.115	Biometry and Risk Estimation-Health Risks from Environmental Exposures	508
93.116	Project Grants and Cooperative Agreements for Tuberculosis Control Programs	34,924
93.127	Emergency Medical Services for Children	13,600
93.130	Primary Care Services Resource Coordination and Development	172,887
93.150	Projects for Assistance in Transition from Homelessness (PATH)	285,906
93.184	Disabilities Prevention	79,645
93.217	Family Planning Services	1,857,018
93.230	Consolidated Knowledge Development and Application (KD&A) Program	574,571
93.235	Abstinence Education	9,346
93.241	State Rural Hospital Flexibility Program	539,697
93.243	Substance Abuse and Mental Health Services_Projects of Regional and National Significance	353,240
93.268	Immunization Grants	301,052
93.283	Centers for Disease Control and Prevention-Investigations and Technical Assistance	4,821,775
93.301	Small Rural Hospital Improvement Grants	385,833
93.361	Nursing Research	3,415
93.389	Minority Health and Health Disparities Research	2,656,459
93.393	Cancer Cause and Prevention Research	111,779
93.556	Promoting Safe and Stable Families	1,008,221
93.558	Temporary Assistance for Needy Families (TANF)	2,237,158
93.566	Refugee and Entrant Assistance-State Administered Programs	100,794
93.568	Low-Income Home Energy Assistance	567,357
93.569	Community Services Block Grant	11,000
93.575	Child Care and Development Block Grant	4,713,835
93.590	Community-Based Family Resource and Support Grants	192,428
93.597	Grants to States for Access and Visitation Programs	112,368
93.599	Chafee Education and Training Vouchers Program (ETV)	(11,900)
93.600	Head Start	112,704
93.617	Voting Access for Individuals with Disabilities-Grants to States	68,000
93.630	Developmental Disabilities Basic Support and Advocacy Grants	625,645
93.658	Foster Care Title IV-E	2,283,451
93.669	Child Abuse and Neglect State Grants	(4,000)
93.671	Family Violence Prevention and Services/Grants for Battered Women	721,182
93.674	Chafee Foster Care Independent Living	337,051
93.778	Medical Assistance Program	35,494
93.779	Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	356,584
93.822	Health Careers Opportunities Program	348,796
93.837	Heart and Vascular Diseases Research	216,564
93.853	Extramural Research Programs in the Neurosciences and Neurological Disorders	14,763
93.855	Allergy, Immunology and Transplantation Research	1,031,272
93.856	Microbiology and Infectious Diseases Research	71,502
93.917	HIV Care Formula Grants	178,667
93.940	HIV Prevention Activities-Health Department Based	963,561
93.958	Block Grants for Community Mental Health Services	1,228,489
93.959	Block Grants for Prevention and Treatment of Substance Abuse	1,080,649
93.969	Geriatric Education Centers	12,018
93.991	Preventive Health and Health Services Block Grant	241,853
93.994	Maternal and Child Health Services Block Grant to the States	511,020
93.999	General	109,076
94.004	Learn and Serve America - School and Community Based Program	280,542
94.006	Americorps	1,639,748
96.007	Social Security Research and Demonstration	33,492
97.004	State Domestic Preparedness Equipment Support Program	8,562,272
97.017	Pre-Disaster Mitigation (PDM) Competitive Grants	1,597
97.039	Hazard Mitigation Grant	11,383
97.042	Emergency Management Performance Grants	665,755
97.047	Pre-Disaster Mitigation	29,494
97.054	Community Emergency Response Teams	4,757
97.067	Homeland Security Grant Program	1,059,758
97.074	Law Enforcement Terrorism Prevention Program (LETPP)	291,997
97.078	Buffer Zone Protection Plan (BZPP)	242,119
98.002	Cooperative Development Program (CDP)	28,882
98.005	Institutional Support Assistance (ISA)	158,829
Total		266,804,214